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IN THE SUPREME COURT OF THE UNITED STATES

October Term, 1982

**BAHIDJ B. SABOUNI, an individual,
SABOUNI AND ASSOCIATES,**

Petitioner,

v.

JAMES M. LEAVER, et al.,

Respondents.

**PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT**

**DAVID B. BIRENBAUM
BIRENBAUM, LUSCUTOFF & LENDORMY
Opera Plaza, Suite 2030
601 Van Ness Avenue
San Francisco, CA 94102
Telephone (415) 929-1000
Attorneys for Petitioner**

QUESTIONS PRESENTED

1) Whether the rules on patent licensing established under **Lear v. Adkins** (395 U.S. 653) also govern patent assignments and patent "sales."

2) Whether the Court of Appeals may reweigh evidence to reconcile squarely inconsistent jury verdicts.

3) Whether it is prejudicial error to admit into evidence a Magistrate's report where it goes well beyond the scope of the Magistrate's Order of reference; and where its conclusions on patent validity are based on tests that omitted an admittedly critical step in the patent process.

4) Whether the inventor was accorded due process in this complex patent validity case.

The parties to this case are: **BAHIDJ B. SABOUNI, SABOUNI AND ASSOCIATES, JAMES M. LEAVER, S-3 CONCRETE PRODUCTS, INC.**

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BAHIDJ B. SABOUNI respectfully petitions this Court to review the judgment of the United States Court of Appeals for the Ninth Circuit in **Leaver et al. v. Sabouni**, CA 9, No. 81-4128. (November 30, 1982)

OPINIONS BELOW

The Court of Appeals for the Ninth Circuit issued a memorandum opinion affirming in part and remanding in part the judgment of the District Court (N.D.Calif; Aguilar, J.) entered on jury verdicts. That memorandum opinion, filed November 30, 1982, whose rehearing was denied January 3, 1983, is reproduced at pages 1-5 in the appendix attached here.

JURISDICTION

The opinion of the Court of Appeals issued November 30, 1982, and petitions for rehearing were denied on January 3, 1983 (Appendix p. 6). The jurisdiction of the District Court was invoked under 28 U.S.C. section 1338. This Court has jurisdiction under 28 U.S.C. section 1242(1).

STATUTORY PROVISION INVOLVED

This case involves, but is not limited to, the application of the 7th Amendment to the U.S. constitution, which provides:

In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.

STATEMENT OF THE CASE**A. Factual Background.**

For the purpose of this petition, we accept the following description of the parties and the background facts in the Court of Appeals' memorandum opinion:

The business partner of a patent licensor sued the licensor to have the patent declared invalid, to rescind contracts the parties had entered, to have the licensor found guilty of fraud and to collect damages. Although it did not find fraud, the jury otherwise held for the plaintiff and awarded attorney's fees under one of the rescinded contracts. The defendant (Sabouni) appeals.

Sabouni owned Patent 3,247,294 (Patent '294) which covers a process for making concrete and concrete products. He licensed the

patent to Astro-Stone and formed a separate partnership (S-3 Concrete Company) with Leaver to exploit the patent further.

Through his dealings with Sabouni, Leaver became aware that Astro-Stone was in financial difficulty. Leaver lent Astoro-Stone substantial sums of money. When Astro-Stone continued to flounder, Leaver merged Astro-Stone into S-3 Concrete Products, of which he was president, and, as part of the take over, obtained a license of the '294 Patent from Sabouni.

Problems beset S-3 Concrete Products, and Leaver became convinced that they were traceable to the inoperability of Patent '294. As a result, he sued Sabouni and sought (1) to have the patent declared invalid, (2) to have Sabouni's licensing agreements with Astro-Stone and S-3 and the partnership agreement between Leaver and Sabouni rescinded, (3) to have Sabouni found in breach of these contracts, (4) to have Sabouni found guilty of fraud, and (5) to have the agreements with Sabouni declared void.

B. Proceedings in the District Court.

Sabouni denied the complaint's allegation and counterclaimed for unpaid royalties and for breach of various of his rights as a minority stockholder in plaintiff Leaver's corporation. (See pleadings at Appendix, pp. 42-94.)

By a stipulated order of reference (CR 34),

the parties referred Sabouni's patent to the Court's Special Master, Magistrate Owen E. Woodruff, for testing of the patent and its claims. The Magistrate retained an independent testing laboratory to conduct tests of the patent claims based on separate tests designed by the parties (Appendix, p. 37:11 thru Appendix, p. 38:1-19). The testing laboratory, however, did not refer to the patent in conducting its tests (Appendix, p. 27, lines 2-6).

After reviewing the tests designed by plaintiff and by Sabouni, the Magistrate, acknowledging his lack of expertise in these matters (Appendix, p. 30, line 23; Appendix, P. 41, lines 1-5), adopted the plaintiff's tests in his report (CR 99). This was despite the fact that Sabouni's tests, performed at the University of California in accordance with the teachings of the patent, affirmed the patent claims.

Sabouni moved for reconsideration and review of the Magistrate's report on several grounds,

including the ground that the plaintiff's tests, adopted by the Magistrate, had not practiced the patent (CR 112, CR 114). Neither the inventor nor the Magistrate had witnessed the tests and Sabouni had prepared detailed testimony and an extensive brief to show that the testing methodology behind the adopted tests was fatally flawed. Due to time constraints Sabouni, however, was not permitted to deliver this testimony or present his brief.

Thereafter, a lengthy jury trial ensued, at which time, over defendant's objections (RT 913:19-25), the Magistrate's report was admitted into evidence with the Judge's instruction to the jury that it must be accepted as the Court's findings. The jury retired and deliberated for a full day before reaching contradictory verdicts, to wit, that all contracts sued upon were rescinded and at the same time damages should be awarded for breach of the rescinded contracts.

Thereupon, the Court entered judgment on those verdicts which provided:

a) that Sabouni had committed no fraud;

b) that all contracts sued upon were rescinded;

c) that \$62,083.00 in patent royalties received by Sabouni under one of the rescinded licensing agreements was to be returned to plaintiffs; and,

d) that plaintiffs were to receive \$36,000.00 from Sabouni for breach of the same contracts that had been rescinded by the preceding verdict (Appendix, pp. 7-9)

Subsequently, the District Court Judge awarded plaintiffs the total sum of \$41,500.00 attorneys' fees (Appendix, p. 19) on the basis of attorneys' fees clauses in the contracts that had been sued upon and rescinded (CR 212, EXC 124).

Sabouni's counsel moved for a new trial on several evidentiary and legal grounds (CR 222).

This motion was denied (CR 260) and thereupon Sabouni commenced his appeal. No cross-appeal was filed by the plaintiffs.

C. Proceedings in the Court of Appeals.

In his appeal, defendant/inventor Sabouni claimed that, under **Lear v. Adkins** (395 U.S. 653) and its progeny, royalties paid prior to the patent challenge should not be returned to plaintiff Leaver (this had been specifically agreed to in their contracts); that the legally inconsistent verdicts of contract rescission and contract breach as to the same contracts should be set aside; and that the Magistrate's report on the patent should not have been given to the jury since the tests it was based on had fatal methodological flaws. Sabouni also contested the finding of patent invalidity and the granting of attorneys' fees to Leaver based on attorneys' fees clauses in contracts that had been rescinded.

A panel of the Court of Appeals issued a memorandum opinion deciding that **Lear v. Adkins**

and its progeny¹ were inapplicable because payments by Leaver to Sabouni for use of the inventor's patent technology could be characterized as "installment payments for the sale of a patent license," rather than simply royalties. Accordingly, the Court of Appeals held that it would be proper to order restitution of some \$62,000 of royalties paid to Sabouni up to the time of the patent challenge.

Notwithstanding the jury's verdicts as to the contracts sued upon, all of which had been lumped into one cause of action for breach² and another for restitution on rescission³, the Court of

¹Specifically, its decision in *St. Regis Paper Co. v. Royal Industries* (CA9, 1977) 525 F.2d 309, certiorari denied 434 U.S. 996.

²"We, the jury, find in favor of plaintiffs * * * and against defendant BAHIDJ B. SABOUNI on plaintiffs' breach of contract causes of action * * * " (Trial Transcript, p. 2071; Appendix, p. 9)

³"We, the jury, find in favor of plaintiffs * * * and against defendant * * * on plaintiffs' causes of action for rescission * * * " (Trial Transcript, p. 2071, lines 8-10; Appendix, p. 9).

Appeals read the verdicts as declaring that only the agreements transferring patent rights had been rescinded.

However, the Court of Appeals did agree that Sabouni had committed no fraud and that, without more, there were no grounds to award plaintiffs' attorneys' fees since the contracts containing attorneys' fees clauses had been rescinded.

The Court further held that, notwithstanding that the Magistrate's report had been vested with judicial authenticity by the Trial Court, and that the jury had been instructed the report constituted prima facie evidence of patent invalidity, it was not error to admit it into evidence even though it had been based on tests omitting a critical step in the patent process.

The Court of Appeals reasoned that Sabouni's ability to cross-examine the Magistrate's testing expert at trial allowed him to erase or otherwise counter-balance the weighty presumptions that had been attached to the Magistrate's report by the

trial judge; that a subsequent jury instruction telling the jury to give the Magistrate's report the "appropriate weight" cleansed from the jury's minds earlier statements by the Trial Court that the report was to be considered as the Trial Judge's own findings.

The Court went on to find that there was substantial evidence to support the verdict of patent invalidity and otherwise affirmed the District Court judgment except the attorneys' fees award.

REASONS FOR GRANTING THE WRIT

THE COURT OF APPEALS HAS DEPARTED FROM THE RULE OF WATERMAN V. MACKENZIE (138 U.S. 252) AND CREATED AN UNWARRANTED RESTRICTION OF LEAR V. ADKINS (395 U.S. 653)

A. Lear v. Adkins And Its Progeny Apply To Patent "Sales" And Assignments As Well As Patent Licenses.

Lear v. Adkins (395 U.S. 653) was the Court's

most significant decision in the past two decades on the relationship between an inventor/patentee and his licensee. The **Lear** Court held that a licensee was no longer estopped from challenging the validity of the patent licensed to him. Thereafter licensees had the authority to avoid royalty and licensing agreements for patents which were later proved invalid.

In applying the **Lear** decision most Circuit Courts have held that a licensee successfully challenging a patent may avoid royalty payments beginning with the date of his challenge to the patent's validity. [**PPG Industries Inc. v. Westwood Chemical Inc.** (CA 6, 1976) 530 F.2d 700, 707; discussed at **Qume Corp. v. Xerox Corp** (N.D.Cal., 1979) 207 U.S.P.Q. 621.]

"A licensee may successfully defend a suit for royalties accrued after a patent is issued by proving the patent is invalid. See **Aronson v. Quick Point Pencil Co.** (1974) 440 U.S. 257,

264" (Treace et al v. Marmor (CA 6, 1981)
209 U.S.P.Q. 697.)

But the Circuits have also uniformly held that, under **Lear v. Adkins**, a licensee who brings a successful patent challenge remains liable to pay all royalties which had accrued prior to the date of the challenge. [**Atlas Chemical Industries Inc. v. Morraine Products** (CA 6, 1974) 509 F.2d 1, 6; **American Sterilizer Company v. Sybron Corporation** (CA 3, 1980) 614 F.2d 890, 897-898; **Zenith Laboratories v. Carter Wallace** (CA 3, 1976) 530 F.2d 508; **Transitron Electronic Corporation v. Hughes Aircraft Co.** (CA 1, 1981) 648 F.2d 871; **St. Regis Paper Co. v. Royal Industries** (CA 9, 1977) 525 F.2d 309.]

All of the aforementioned cases dealt with licensing situations. The **Lear** doctrine has, however, been held in dicta to be equally applicable to patent assignments.[**Coastal Dynamics Corp. v. Symbolic Display** (CA 9, 1972) 469 F.2d 79, 175

U.S.P.Q. 81; *Coast Metals Inc. v. Cape et al.*
(D.C.N.J. 1979) 205 U.S.P.Q. 154.]

Because the only real difference between a patent license and a patent assignment is the breadth of rights conveyed by the patentee (see discussion, *infra*), it is submitted that *Lear* and its progeny are equally applicable to patent assignments as well as licenses.

If this is not the case, royalties become mandatory at the stroke the draftsman's pen regardless of patent validity. Contracts for transfers of patent rights become governed by old principles of transferee estoppel simply by fashioning the transfer as an assignment rather than a license.

If this Court allows a distinction to exist between the treatment of licenses under *Lear* and the treatment of assignments, transfers of patent rights will be tortured into a license or an assignment depending on which legal treatment the parties desire for an otherwise substantially

identical transfer of patent rights. (No doubt this would be at the whim of the party with the superior bargaining power.) At that point, this Court's Lear decision could be avoided at will.

If Lear and its progeny apply to all transfers of patent rights, then it follows that the \$62,000 in royalties paid by Leaver to Sabouni should not be returned by Sabouni, and the Court of Appeals should be reversed accordingly⁴.

B. The Ninth Circuit Has Violated Waterman v. MacKenzie (1891) 138 U.S. 252 And Lear v. Adkins (395 U.S. 653) And Created A Bastard Child Of Patent Law By Treating The Parties' Relationship As Other Than Licensor-Licensee.

By characterizing the Leaver-Sabouni patent license as "an installment sale of

⁴These \$62,000 in royalties were paid pursuant to the Astro-Stone license where the field of use of the technology was limited to fireplaces and mobilehomes (Appendix, pp. 80-81) and which also contained a provision that no payments made thereunder were to be refunded (Appendix, p. 82).

patent rights," and then treating payments thereunder differently than license payments (royalties) are treated under **Lear**, the Ninth Circuit created a legal distinction not heretofore recognized by the Court.

Under the accepted rule established by the leading case of **Waterman v. MacKenzie** (1891) 138 U.S. 252, every transfer of patent rights will constitute either an assignment or a license.

"The patentee or his assigns may by instrument in writing assign, grant and convey either, 1st, the whole patent, comprising the exclusive right to make, use, and vend the inventions throughout the United States; or, 2nd, an undivided part or share of that exclusive right under the patent within and throughout a specified part of the United States * * * A transfer of either of these three kinds of interest is an assignment, properly speaking, and vests in the assignee a title in so much of the patent itself with the right to sue infringers; in the second case, jointly with the assignor; in the first and third cases, in the name of the assignee alone. **Any assignment or transfer short of one of these, is a mere licence* * *** (**Waterman v. MacKenzie** 138 U.S. 255) (Emphasis added.)

See also: **Rosenberg, Patent Law Fundamentals**

section 16.01(1)(A), "Transfer of anything less [than the **Waterman** assignment] will probably be deemed a license"; and see Einhorn, Patent Licensing Transactions, 14 **Business Organizations** section 1.01(1)(b): "**Waterman v. MacKenzie** laid down the negative definition of a license which has persisted until today. Under that definition, a patent license is any transfer of intellectual property rights which does not amount to an assignment." (Citations); cf. Risdale Ellis, **Patent Assignments** (3d Ed. 1955), section 4.

Whereas, until now, the Ninth Circuit followed **Waterman** (cf. **Von Brimer v. Whirlpool Corporation** (CA 9, 1976) 536 F.2d 838, 844-845), in the instant licensing case the Appellate Court has conceived a legal animal other than a license or an assignment.

The Panel refused to apply patent licensing and royalty doctrines here on the grounds that Sabouni's arrangement with Leaver was something called "an installment sale of patent license

rights." (Appendix, p. 3, lines 28-29), rather than a license⁵.

The Panel's unprecedented approach was taken notwithstanding that in its restatement of the facts of the case, the Panel characterized the transactions and relationships between the parties as those involving a licensor and his business partner and their license of a patent. However, the Panel then departed from accepted authority and stated the jury had ample evidence from which to find that the money paid by the licensee was

"* * * consideration for an installment sale of patent license rights by Sabouni [sic] and not royalties for use of Sabouni's patent. Restitution of such payments on the contract of sale was a proper remedy in conjunction with the rescission of the contract ordered by the jury." (Memo.Op., p. 3, lines 26-32) (Emphasis added.)

⁵The Ninth Circuit opinion appears to allow that Sabouni could keep Leaver's payments to him if they could be characterized as royalties under a license. This would be in accord with its decision in *St. Regis Paper Co. v. Royal Industries* (CA 9, 1977) 525 F.2d 309, cert. denied, 434 U.S. 996 and that adopted by the Sixth Circuit in *Troxel Manufacturing Co. v. Schwinn Bicycle Co.* 465 F.2d 1253.

What payments are called would seem insignificant under *Lear* or *Waterman* when deciding what the parties' relationship was. The fact that the parties chose to denominate their contracts, "Sale of Patent Rights" is, in and of itself, of no legal moment because, during the course of transfers of patent rights, the only conceivably meaningful distinction is that of assignment versus license. (*Waterman*, supra.)⁶

The Ninth Circuit seems to try to take this case away from patent law and into traditional contract law. A reading of *Lear* makes it clear that traditional notions of contract law, failure of consideration and rescission do not apply in the context of transfers of patent rights. This is because of the very nature of a patent.

⁶The only cases found by counsel which discuss transfers of patent rights in terms of a "sale" are those involving tax matters where, of course, "sale" assumes a particular meaning under the Internal Revenue Code. [See, 26 U.S.C. section 1235; *Einhorn* section 1.01(1) at pp. 1-4/1-5 regarding qualification for capital gains treatment.]

It is axiomatic that all a patent gives its holder is the negative right to exclude others from the domain circumscribed by its claims. [Rosenberg, **Patent Law Fundamentals**, Part VI, p. 1.] A patent is, in effect, a bundle of rights which may be divided up and parcelled out along one or more different lines, as, for example, by time, territory or field of use. (Rosenberg, *supra*.) The patentee has these rights from the time he receives his letters patent until he is divested of them by order of court or passage of time.

So long as the patentee is vested with these rights, they constitute valuable consideration in any transfer pursuant to a license or assignment. Thus, arguments of "failure of consideration" simply won't wash in the patent litigation context, whether what's at issue is a license or an assignment of patent rights; or, as the Ninth Circuit conceived it here, "an installment sale of patent license rights."

This petitioner contends that the distinction the Court of Appeals has made between petitioner's agreements with plaintiff and those treated in *Lear v. Adkins* and *St. Regis Paper Co. v. Royal Industries* is superficial⁷.

In any event, following *Waterman*, the substance of an agreement for the transfer of patent rights controls rather than its label. (*Coast Metals Inc. v. Cape et al.* (1979) 205 U.S.P.Q. 154 at 156.) This view is wholly consistent with treatises on the subject. (See: *Rosenberg*, 16.01(1)(c); and also *Einhorn*, Patent Licensing Transactions.) And under *Waterman v. MacKenzie*, with respect to a patent rights transfer, that substance is either the substance of an assignment or of a license.

⁷It is instructive that at trial Plaintiffs never treated the Sabouni contracts as anything other than licenses. Indeed, the agreements contained traditional limitations in scope and use that are characteristic of licenses, e.g., royalties based on sales, territorial and use restrictions, etc. (Ref. Licensing Agreements at Appendix, pp. 74-75; 79-81.)

Accordingly, petitioner urges that this decision be reversed and the case remanded with instructions that the patent rights transfers between Leaver and Sabouni be treated as either assignments or as licenses; and that Lear and its progeny control the refund of monies paid for a transfer of patent rights no matter what the contractual artifice is under which they are paid.

C. The Court has Dramatically Misstated the Jury's Findings on Rescission and Breach of Contract.

At page 2 of its Memorandum Opinion, lines 15-19, and again at page 3, lines 2-6, the Court states that the jury rescinded the patent licenses and found a breach of the partnership agreement. The jury made no such findings; and the trial transcript at pages 8-9 of the Appendix reveals this.

The Court's attention is directed to the trial transcript, pages 2071, appended hereto, where absolutely no mention is made by the jury of

what agreements were rescinded and which were breached. The omnibus language at line 10 and at lines 20-21 of the jury's own verdict includes **all** contracts sued upon within **both** the rescission and breach of contract findings.

To the significant extent that the Appellate Court relied on the mistaken impression that the jury distinguished between which contracts were rescinded and which were breached, the Court must be reversed.

The plain language of the jury's verdict does not distinguish its findings and The Court of Appeals had no legal authority to make that distinction for the jury (see discussion, *infra*). Since that jury is no longer impanelled, there is no way to ask it what it really meant by its verdict. At the very least the case must be sent back to a new jury for retrial on the breach and rescission issues.

**D. The Court of Appeals Invaded the
Function and Province of th Jury.**

The Court of Appeals opined that the jury's general damages award of \$36,000.00 for breach of contract could have been based on the parties' partnership agreement, one of four contracts the jury explicitly decided was rescinded, and thus the Panel sustained the Trial Court damage award.

Plaintiffs had put the breach of four contracts at issue in but a single cause of action of their complaint (Appendix, p. 46). In another cause of action plaintiffs sought restitution on rescission of the same four contracts; (Appendix, p. 44). The plaintiffs did not differentiate between their contracts and neither did the jury. The Court of Appeals afterward had no power or authority to decide that the jury had not intended to exclude any one contract from its verdict that all four had been rescinded.

The jury verdicts in this case did not pose simple conflicts that could be reconciled. They were diametrically opposed. In this case of irreconcilable conflict, it was the duty of the

reviewing court to reconcile the matter in a fashion most favorable to appellant Sabouni. (**Freightways Inc. v. Stafford** (CA 8) 217 F.2d 831.)

The rule adopted by the Supreme Court is that neither it "nor the Court of Appeals can redetermine facts found by the jury any more than the District Court can pre-determine them. For the Seventh Amendment says that no fact tried by a jury shall be otherwise re-examined in any court of the United States" (**A & G Stevedores v. Ellerman Lines** (1962) 369 U.S. 355, 358-359.)

What the verdicts indicate is a serious misunderstanding by the jury of what it was allowed to do under the circumstances. And any reconciliation of the jury's conflicting verdicts on the four rescinded contracts was purely speculative.

Who is to say what the jury would have done if they properly understood the election of remedies doctrine?? Would they still have found

that contracts were breached or would they have simply found that all contracts had been rescinded and left the matter at that??

It is the trial court jury, not the Court of Appeals, that is the fact finding body. The Court of Appeals is not free to reweigh the evidence and adjust the jury verdict "because the jury could have drawn different inferences or conclusions or because judges feel that other results are more reasonable." (*Gallick v. Baltimore & Ohio R. Co.* (1962) 372 U.S. 108 at 115; citing *Tennant v. Peoria & P.V.R. Co.*, 321 U.S. 29 at 35.)

The Court of Appeals was without discretion to decide what it thought would be a reasonable jury verdict here. The Court was faced with irreconcilable verdicts, had no power to remove the conflicts, and should have remanded the case for a new trial.

E. The District Court's Judgment Incorporates Legally Inconsistent Verdicts and Should Have Been Set Aside.

"A contract is extinguished by its rescission. (Citation) * * * The contract becomes a nullity; it and each of its terms and provisions cease to be subsisting or enforceable against the other party. (Citation) **The rescinding party cannot continue to claim the benefits of the contract * * * .**" (55 Cal.Jur.3d, Restitution, §99) (Emphasis added.)

The affirmance of the parties' contracts on the one hand, and their disaffirmance on the other, were wholly inconsistent remedies. (Robb v. Vos (1894) 155 U.S. 13, 41-43; U.S. v. Oregon Lumber Co., 260 U.S. 290.) The verdicts must be set aside and the matter returned for a new trial.

The Circuit Court left untouched a problem that began with the very complaint plaintiffs brought suit on. In the second cause of action of the complaint Leaver sought the rescission of four of his contracts with Sabouni, based on a deceit theory, and demanded restitution of all consideration paid. In the third cause of action, he also sought damages for breach of the same four contracts. Thus, on the one hand, he sought to rescind the contract and receive the remedy of

restitution, while, on the other hand, attempting to affirm the contract and receive the remedy of damages. (See generally Appendix, pp. 47-48.)

Although it is proper to plead in the alternative and to seek inconsistent remedies, a party **must** at some point prior to the time the case is submitted to the jury make an election between inconsistent rights. (*Walters v. Marler* (1978) 83 Cal.App.3d 1, 15-16; Witkin, California Procedure 2d, Actions, Section 114 et seq.) It was clear error to enter judgment on the inconsistent verdicts.

Under the doctrine of election of remedies, a party having two or more inconsistent modes of procedure or relief allowed by law on the same state of facts may not pursue both. Upon breach of a contract, or when one party claims to have been defrauded, the innocent party may treat the contract as terminated and seek restitution based on termination of the contract; or he may affirm the contract and claim damages for its breach; but

he cannot properly do both, for the remedies are mutually exclusive. (See, Rest., Contracts Section 381 et seq.; Note, **Election of Remedies: The California Basis**, 19 Hastings L.J. 1233 (1968); 14 Cal Jur3d, Contract, Section 291 (Election of Remedies); Witkin, 1 Summary of California Law, 8th, Contracts, Section 622; 28 Cal Jur3d, Election of Remedies, Section 1 et seq.)

In the case at hand, however, Leaver never made the required election of rights, so that eventually the jury rendered--and the judge entered judgment upon--absolutely unsupportable, i.e. legally inconsistent, verdicts. The jury made, as to the same contracts, the legally impossible award of (1) restitution pursuant to the rescission cause of action and (2) (non-consequential) damages pursuant to the breach of contract cause of action. (Appendix, p. 9.) Furthermore, the District Court judge entered a Judgment providing for the payment of attorney's fees pursuant to the rescinded contracts. (CR

212, EXC 124).

The impossibility of such a situation was addressed in *Paularena v. Superior Court* (1965) 231 Cal.App. 2d 906. In that case, the plaintiffs filed a complaint alleging causes of actions for damages arising out of violation of statutory duties, negligence, breach of warranty, fraud and rescission. The *Paularena* court stated that:

"The damages which (plaintiffs) seek through their first four causes of action are dependent upon their affirmance of the existence of a contract to purchase. The damages alleged by the fifth cause of action arise out of their disaffirmance of that contract . . . (Citations omitted.) The remedy based upon the existence of the contract to purchase is inconsistent with the remedy based upon its non-existence. (Citations omitted.) Damages may not be recovered on the theory that the contract exists and additionally on the theory that the contract is at an end. (Citations omitted.)

"The rules of law applicable to the issue at hand were codified by the adoption of section 1692 of the Civil Code wherein it is provided that: 'A claim for damages is not inconsistent with a claim for relief based upon rescission. The aggrieved party shall be awarded complete relief including restitution of benefits, if any, conferred by him as a result of the transaction and any consequential damages to which he is entitled; but such relief shall not include duplicate or

inconsistent items of recovery.

"These statutory provisions do **not** purport to declare that a claim for damages based upon the affirmance of the contract is not inconsistent with a claim for damages based upon rescission of the contract. To the contrary, they recognize that any relief awarded 'shall **not** include duplicate or inconsistent items of recovery,' and thus eliminate an award of damages based upon inconsistent causes of action." (231 Cal.App.2d at pp. 915-916.) (Emphasis added.)

Thus, the Sabouni-Leaver contracts may be disaffirmed or they may be affirmed, but clearly not both. As a simple matter of law, then, those portions of the District Court's judgment which at the same time affirmed the contracts and also rescinded the contracts were in error and the matter should have been returned for a new trial.

F. The Magistrate's Report Should Not Have Been Admitted Into Evidence Because The Test It Was Based On Had Omitted A Critical Step In The Patent Process.

The '294 Patent involves several processing steps, one of the most important being water removal. First, a cementitious mixture is to be

prepared. "This prepared mixture is then placed into a water porous mold and subjected to a compressive force, **squeezing as much water from the mixture as is feasible**" ('294 Patent Specifications, column 3, lines 4-6, emphasis added); Appendix here, pg. 103.

The patent explains how to practice the '294 invention by describing equipment used by the inventor in the process. ". . . [A] box is lined with a woven cloth, such as muslin or burlap, which will have a weave size **to permit water to flow freely from the mold** without permitting an extrusion of the cement or solid materials." (PX 1, column 4, line 29-34 Emphasis added). Not surprisingly, each of the examples discussed in the patent provided for water extraction (Ref. Letters Patent '294, column 5, lines 54-55; column 6, line 34; column 7, lines 4-6). (App. 104.)

Regrettably, this essential step of water removal was omitted from those tests relied on and incorporated into the Special Master's Report,

i.e. the tests that plaintiffs had designed. Plaintiff's expert freely admitted this. (RT 796:23-25; 797:1)

Plaintiffs argued that the tests adopted by the Magistrate were nonetheless a valid test of the patent inasmuch as they had followed the steps set out in the patent claims; that the patent claims themselves did not all specifically call for the step of water removal. This argument was intellectually dishonest and contrary to the law.

One does not look to the patent claims for the means to practicing an invention but, rather, to the patent specifications. (In Re: Johnson 558 F2d 1008; In Re Ranier 305 F2d 505, 509; In Re: Roberts 470 F2d 1399, 1403; In Re: Moore 439 F.2d 1232.) It is an undeniable fact then, that failure to follow patent specifications is a failure to practice the invention.

Plaintiffs' own expert testified that the specifications play an integral part in understanding how to make the patent process work.

(RT 765:12-25; 766:1-15.) Defendant's expert testified that it would be totally inappropriate to argue that one had practiced Sabouni's invention unless he allowed for water extraction and used a water porous concrete mold. (RT 1063:10-25; 1364:1-25; 1065:1-13).

Quite simply, then, the Magistrate adopted tests and test results that failed to practice the patent. It is no wonder, then, that the results of plaintiffs' tests tended to show patent inoperability (Appendix, p. 37:21-25), while the defendant's tests - which did practice the water removal step - achieved the desired results (Appendix, p. 38:1-6).

Clearly, then, it was error to give the jury test results, presumably valid, when they were in fact invalid. Was this, however, prejudicial error justifying a reversal of the trial court judgment? Under the circumstances, because it goes to the ultimate fact at issue, the answer is an unequivocal "YES!".

"The Master is used in jury cases where the issues are so complex and complicated that a jury of laymen would have great difficulty in making an adequate determination of the issues if unaided by the testimony of an informal impartial expert." (5A **Moore's Federal Practice**, paragraph 53.14 (2).) In this case, though, and by his own admission, the Magistrate was not an expert on concrete or concrete testing. (Appendix, p. 41:1-8.) On top of that, the court appointed testing expert had not even read the patent he was presumably testing (Appendix, p. 38:12-16).

Thus, it was understandable, that the Magistrate would throw up his hands at the state of affairs of the case after the presumed patent testing. His frustration is obvious from the transcript: "Now, that to me is not terribly conclusive. I don't believe that we have a single set of standards; I don't believe that we have the expert, the court's expert providing an expert's opinion on the patent that tells me if the patent

is operable or not operable." (Magistrate's statements at Appendix, p. 38:7-11.)

Because this matter was so complicated, it is unthinkable that the jury did not rely heavily, if not exclusively, on the Magistrate's report⁸. After all, it was described to them as having received "judicial consideration" (RT 2010:11) and as having been the product "of an informed impartial expert" (RT 2010:4-5).

For the reasons stated here and elsewhere (infra.), the report of the Special Master/Magistrate must be regarded as clearly erroneous and, under the circumstances of this complicated case, prejudicial to the fair outcome of the case. For those reasons it should not have been admitted into evidence.

⁸Petitioner's declaration in the appendix hereto reveals the frustration expressed by jury members after the trial; and their dependence on the Master's Report.

G. It Was Error For the District Court To Deny Defendant's Motion For Reconsideration Of The Magistrate's Report: Not Only Did The Magistrate's Report Itself Exceed The Lawful Scope Of Reference, But The Methods Employed By The Magistrate Were, On Their Face And As A Matter Of Record, Clearly And Completely Outside Of The Framework Embodied In The Order Of Reference Itself.

Defendants brought a well reasoned motion to the District Court, urging that the Magistrate's report be reconsidered. (CR 112) As discussed in the motion the order of reference signed and entered by the court on July 23, 1979, contained language establishing the framework under which the Magistrate was charged with his duties. That language is clear and succinct and reads as follows:

"1. The supervision of test as to the operability of the process disclosed and claimed

in the US Letters Patent 3, 247, 294 shall be referred to Magistrate Owen Woodruff. . . .

"3. Magistrate Woodruff shall be charged with setting up and supervising test of the **operability of the patent**, and to report his findings to the Court in the manner provided for reports in jury actions...." (Emphasis Added)

It is clear from the foregoing that the Magistrate was not charged with supervising or conducting just any test, but precisely only such tests as concerned the operability of the subject patent claims. It would therefore follow without argument that the patent would have to have been practiced in order to have determined the operability of its claims. Indeed, it would appear that such a conclusion is merely a tautological statement of that which is obvious, for it defies the imagination to conceive of how operability of anything can be determined without reference to the thing itself.

But, that is precisely what was done in this case by the Magistrate when he adopted plaintiffs' fatally flawed tests. First, it must be assumed

that Magistrate Woodruff lacked the expertise required to either conduct the tests or to evaluate their results. This assumption appears well founded in light of the Magistrate's own statements. (Appendix, pp. 34-42.)

Second, it must be assumed that the testing laboratory expert (Salladay) was engaged by the Magistrate to provide the expertise that he himself lacked. This assumption is equally well founded since the record discloses he was in fact engaged for this reason, and indeed there is no other explanation for his role in this case.

Third, and perhaps the most astounding occurrence in this chain of events, is that the expert Salladay conducted all of the tests as to operability without ever having read the patent, without ever having evaluated it, and without knowing at any time whether or not his tests were practicing the patent in accordance with its claims. This was all candidly admitted by the expert Salladay. (Appendix 27:54:2-6.)

At this point it is noteworthy that the Magistrate, who himself declared the proceedings at this juncture to be confusing (Appendix, p. 38:7-11), nevertheless set about to make findings regarding the operability of something without a scintilla of evidence that the thing tested was the patent that the reference was designed to test.

In short, the Magistrate was by law not legally competent to formulate an expert opinion of his own, and the expert who could have provided such an opinion was in no position to do so for he had no idea at all, what, if any, patent was practiced by his tests.

It is no answer to the foregoing legal curiosity that the parties themselves may have directed the expert in his testing techniques. The order of reference to the Magistrate did not provide for anyone but the Magistrate to determine the operability of the contested patent claims. While the Magistrate was permitted by the order to

engage an expert, the expert was not invested by that order with the authority himself to engage others to do his job, which is precisely what he did when he looked to the contesting parties for the establishment of both the scientific climate and criteria for the testing actually done. Then the Magistrate adopts the expert's report of the plaintiffs' tests, notwithstanding the fact that the expert admitted to not reading the patent; and thus not knowing whether plaintiffs followed the teaching of the patent or not.

The precise reason for the reference in the first place was because of the inherent complexity of the issues involved. No more incisive statement regarding the complexity of this case need be looked to other than the statement made by Leaver's counsel himself in his cross-motion to tax additional costs, which was filed with the court on or about December 31, 1980. In his introductory paragraph to his motion, Mr. Strabala himself observed:

"Most of this case tried before the jury involved very technical subject matters. Actually the technical issues varied from abstract mathematical concepts (regression analysis), to scanning electron microscopes, to gel formation in cement and to complex patent concepts, along with the effect of water-ratios in cement pastes." (CR 231)

Unhappily, the jury never knew whether or not the complexity with which it was concerned was the complexity of the subject patent or with something else having nothing to do with the patent itself. The jury never knew it, because the Magistrate never knew it, because the expert never knew it, because there is not a whisper of legally competent evidence indicating that what ultimately was evaluated by the jury was that which constituted the subject matter of the dispute between the appellant and respondent.

**H. The Admission Of The Tainted
Magistrate's Report Created A Prejudice
In The Case Tantamount To A Denial Of
Sabouni's Rights Of Due Process.**

As disclosed by petitioner's affidavit (Appendix, p. 95-99), the befuddled jury relied

heavily, if not exclusively, on the Magistrate's report in concluding that the '294 patent was invalid.

The record of the hearing before the Magistrate (Appendix, pp. 27-41) evidences the methodological flaws underlying the conclusions reached by the Magistrate. Petitioner's declaration supports this.

Without question, petitioner and the '294 patent got a raw deal. Under the circumstances, it is submitted that the rawness of his treatment reached the point of infringing on his rights and so unbalanced the trial as to deprive Sabouni and his patent of due process of law.

CONCLUSION

Certiorari Should Be Granted

For the foregoing reasons, petitioner submits that the within petition for certiorari should be granted.

Respectully submitted,

DAVID B. BIRENBAUM
BIRENBAUM, LUSCUTOFF & LENDORMY
(Counsel of Record)
Opera Plaza, Suite 2030
601 Van Ness Avenue
San Francisco, CA 94102
(415) 929-1000

FILED

NOV 30 1982

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PHILLIP B. WINBERRY
CLERK, U.S. COURT OF APPEALS

JAMES M. LEAVER, an individual, and)
S-3 CONCRETE PRODUCTS, INC., a)
California corporation,)

No. 81-4128

Appellees,)

DC No. CV-78-1185

vs.)

MEMORANDUM

BAHIDJ B. SABOUNI, an individual,)
and SABOUNI AND ASSOCIATES,)

Appellants.)

Appeal from the United States District Court
For the Northern District of California
Robert P. Aguilar, District Judge, Presiding
Argued and submitted April 12, 1982

BEFORE: GOODWIN, FLETCHER and POOLE, Circuit Judges:

The business partner of a patent licensor sued the licensor to have the patent declared invalid, to rescind contracts the parties had entered, to have the licensor found guilty of fraud and to collect damages. Although it did not find fraud, the jury otherwise held for the plaintiff and awarded attorney's fees under one of the rescinded contracts. The defendant (Sabouni) appeals.

Sabouni owned Patent 3,247,294 (Patent '294) which covers a process for making concrete and concrete products. He licensed the patent to Astro-Stone and formed a separate partnership (S-3 Concrete Company) with Leaver to exploit the patent further.

Through his dealings with Sabouni, Leaver became aware that Astro-Stone was in financial difficulty. Leaver lent Astro-Stone substantial sums of money. When Astro-Stone continued to flounder, Leaver merged Astro-Stone into S-3 Concrete Products, of which he was president, and, as part of the take over, obtained a license of the '294 Patent from Sabouni.

Problems beset S-3 Concrete Products, and Leaver became convinced that they were traceable to the inoperability of Patent '294. As a result, he sued Sabouni and sought (1) to have the

1 patent declared invalid, (2) to have Sabouni's licensing agreements
2 with Astro-Stone and S-3 and the partnership agreement between
3 Leaver and Sabouni rescinded, (3) to have Sabouni found in breach of
4 these contracts, (4) to have Sabouni found guilty of fraud, and (5)
5 to have the agreements with Sabouni declared void.

6 Upon a motion by Leaver, the court appointed a magistrate as
7 a special master to determine whether the patent was operable. The
8 magistrate selected a professional testing expert who conducted
9 tests proposed by each party. Although the results of the two tests
0 were contradictory, the magistrate concluded that the plaintiff's
1 test was the more reliable and that it proved Patent '294
2 inoperable. Sabouni's motions for appeal and for reconsideration on
3 the ground that the plaintiff's tests did not perform the necessary
4 step of water removal were denied.

5 After a lengthy trial, the jury, making a special finding of
6 inoperability, found the patent invalid, rescinded the agreements of
7 sale of patent rights, and ordered the restitution of \$62,083. It
8 also held the partnership agreement to have been breached and
9 awarded \$36,000 damages. The agreements for sale of patent rights
0 each provided for severable attorney's fees; the court awarded
1 attorney's fees to Leaver of \$35,000 and, subsequently, of \$6,500
2 for work done in answer to Sabouni's post-trial motions.

3 Sabouni contends that rescission and restitution were
4 inconsistent with the jury's breach of contract finding, and that he
5 was entitled to retain his royalty payments. He also argues that
6 the special master's report was incorrectly admitted and that the
7 jury instruction concerning the report created reversible error.

1. Contract Remedies

Leaver sued on several separate agreements: the agreement
of sale of patent rights between Sabouni and Astro-Stone with an
accompanying security agreement, the agreement of sale of patent
rights between Sabouni and S-3, and the partnership agreement

1 between Sabouni and Leaver.

2 The jury held only the agreements of sale of patent rights
3 to be rescinded while finding the partnership agreement to be
4 breached with resultant damages of \$36,000. The jury did not, as
5 Sabouni contends, award damages for breach of the same contract it
6 had already found to be rescinded.

7 Sabouni also contends that the \$36,000 should be returned to
8 him because it represents his consulting fees under separate
9 consulting agreements. However, the consulting services performed
0 by Sabouni were worth little or nothing except insofar as they were
1 rendered as part of the overall partnership agreement. This
2 partnership agreement was formed for the primary purpose of
3 promoting Patent '294, and the jury found that the failure by
4 Sabouni to deliver a valid patent constituted a breach of the
5 agreement. Therefore, Leaver was properly awarded his expectancy
6 damages for breach of the partnership contract, which the jury
7 measured by the amount Leaver had expended to promote the invalid
8 patent.

9 2. Patent Royalties

0 The jury ordered the agreements for sale of patent rights
1 rescinded, and ordered the restitution of \$62,083 paid by Leaver to
2 Sabouni. Sabouni now urges that these payments be characterized as
3 royalty payments that are not subject to restitution upon
4 contractual rescission, citing St. Regis Paper Co. v. Royal
5 Industries, 525 F.2d 309, 312-324 (9th Cir.), cert. denied, 434 U.S.
6 996 (1977). Sabouni's argument is unconvincing. The jury had ample
7 evidence from which it could properly find that the \$62,083 paid by
8 Leaver was consideration for an installment sale of patent license
9 rights by Sabouni and not royalties for the use of Sabouni's
0 patent. Restitution of such payments on the contract of sale was a
1 proper remedy in conjunction with the rescission of the contract
2 ordered by the jury.

3. Special Master's Report

Sabouni asserts that the trial court erred when it admitted the special master's report in evidence because the master had exceeded the scope of his authority and because the tests on which the report was based had omitted a critical step in the patent process. However, Sabouni's presentation to the jury of the circumstances surrounding the testing was not hampered. The testing expert had been subject to Sabouni's cross-examination. Thus, whether or not the special master's report may have exceeded the scope of the assignment, the evidence it contained was not prejudicial.

4. Jury Instructions

Sabouni claims the jury instructions were confusing because they implied that the jury was bound by the special master's report. The instructions, however, clearly stated that the jury was free to give the report whatever weight it deemed appropriate.

5. Invalidity of Patent '294

Sabouni also challenges the finding of invalidity of Patent '294. Both Astro-Stone and S-3 experienced great difficulty with the concrete process. The court-appointed expert's tests were consistent with other evidence showing the inoperability of the process. Under these circumstances, a reasonable trier of fact could have found Patent '294 invalid.

6. Attorney's Fees

Sabouni also argues that the jury awarded attorney's fees on the basis of an attorney's fees clause in the agreements it held were rescinded. Ordinarily, a party may not claim the benefits of a rescinded contract. 55 Cal.Jur.3d, Restitution, § 99. We therefore remand for a statement of reasons for the award of attorney's fees.

The trial court's findings of patent invalidity, rescission and restitution under the patent rights contracts and damages resulting from the breach of the partnership agreement are

1 affirmed.

2 Affirmed in part; remanded for further proceedings on
3 attorney fees.
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PHILLIP B. WINDERRY
CLERK, U.S. COURT OF APPEALS

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

JAMES M. LEAVER, and individual,)
and S-3 CONCRETE PRODUCTS, INC.,) No. 81-4128
a California corporation,)
Appellees,) DC 78-1185 RPA
v.)
BAHIDJ B. SABOUNI, an individual,)
and SABOUNI AND ASSOCIATES,)
Appellants.)

ORDER

Before: GOODWIN, FLETCHER and POOLE, Circuit Judges
Appellees' petition for rehearing filed December 9, 1982,
and appellants' petition for rehearing filed December 15, 1982,
are denied.

1 WEDNESDAY - DECEMBER 10, 1980

11:25 O'CLOCK A.M.

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3 (PROCEEDINGS HELD IN OPEN COURT WITHIN THE PRESENCE
4 OF THE JURY:)

5 THE COURT: PLEASE BE SEATED, LADIES AND GENTLEMEN.
6 GOOD MORNING, LADIES AND GENTLEMEN OF THE JURY, MR.
7 STRABALA, MR. WILLMARTH.

8 THE JURY: GOOD MORNING.

9 MR. WILLMARTH: GOOD MORNING, YOUR HONOR.

10 THE COURT: THE COURT -- THE RECORD WILL SHOW THAT
11 BOTH COUNSEL ARE PRESENT IN THE CASE OF JAMES M. LEAVER, AN
12 INDIVIDUAL, AND S-3 CONCRETE PRODUCTS, INC., A CALIFORNIA
13 CORPORATION, PLAINTIFFS, VERSUS BAHIDJ B. SABOUNI, AN
14 INDIVIDUAL, AND SABOUNI AND ASSOCIATES, DEFENDANTS, CIVIL
15 ACTION C 78-1185 RPA; AND THAT THE LADIES AND GENTLEMEN OF
16 THE JURY ARE PRESENT AND SEATED IN THE JURY BOX.

17 MR. FOREMAN, I UNDERSTAND THAT THE JURY HAS REACHED
18 A VERDICT IN THIS MATTER.

19 THE FOREMAN: THAT'S CORRECT, YOUR HONOR.

20 THE COURT: ALL RIGHT. WOULD YOU PLEASE HAND THE
21 VERDICT TO THE CLERK?

22 (PAUSE IN PROCEEDINGS.)

23 THE COURT: MR. CLERK, WOULD YOU PLEASE READ THE
24 VERDICTS?

25 THE CLERK: LADIES AND GENTLEMEN OF THE JURY,

1 HARKEN TO YOUR VERDICT AS IT WILL STAND RECORDED:

2 WE, THE JURY, FIND USING THE PROCESS DEFINED IN THE
3 SEVERAL CLAIMS IN U.S. PATENT 3,247,294 FAILS TO GIVE
4 CONCRETE WHICH HAS AN EXCEPTIONAL HIGH COMPRESSIVE STRENGTH
5 WHEN COMPARED TO CONCRETES OF EQUAL WEIGHT NOT MADE ACCORDING
6 TO SAID PROCESSES AND, THEREFORE, FIND THE PATENT IS
7 INOPERABLE AS NOT ACHIEVING ITS INTENDED RESULT.

8 WE, THE JURY, FIND THAT USING THE PROCESS...

9 (COURT AND CLERK CONFER)

10 (CONTINUED ON NEXT PAGE, NOTHING OMITTED)

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1 THE CLERK: WE, THE JURY, FIND IN FAVOR OF PLAINTIFFS
2 JAMES M. LEAVER AND S-3 CONCRETE PRODUCTS, INC., AND AGAINST
3 DEFENDANT BAHIDJ B. SABOUNI ON PLAINTIFFS' DECLARATORY RELIEF
4 CAUSE OF ACTION THAT U.S. PATENT NUMBER 3,247,294 IS INVALID,
5 BECAUSE:

6 THE INVENTION CLAIMED IS INOPERABLE; THE INVENTION
7 CLAIMED IS OBVIOUS.

8 WE, THE JURY, FIND IN FAVOR OF PLAINTIFFS JAMES M.
9 LEAVER AND S-3 CONCRETE PRODUCTS, INC., AND AGAINST DEFENDANT
10 BAHIDJ B. SABOUNI ON PLAINTIFFS' CAUSES OF ACTION FOR RESCISSION
11 AND FIND THE VALUE OF THE CONSIDERATION GIVEN BY THE PLAINTIFFS
12 TO DEFENDANT SABOUNI WHICH CONSIDERATION IS TO BE RETURNED
13 TO THE PLAINTIFFS AS FOLLOWS:

14 CONSIDERATION IN THE AMOUNT OF \$62,083.

15 WE, THE JURY, FIND IN FAVOR OF DEFENDANT BAHIDJ B.
16 SABOUNI AND AGAINST THE PLAINTIFFS JAMES M. LEAVER AND S-3
17 CONCRETE, INC., ON PLAINTIFFS' FRAUD CAUSE OF ACTION.

18 WE, THE JURY, FIND IN FAVOR OF PLAINTIFFS JAMES M.
19 LEAVER AND S-3 CONCRETE PRODUCTS, INC., AND AGAINST THE
20 DEFENDANT BAHIDJ B. SABOUNI ON PLAINTIFFS' BREACH OF CONTRACT
21 CAUSES OF ACTION AND ASSESS DAMAGES AS FOLLOWS:

22 ACTUAL DAMAGES IN THE AMOUNT OF \$36,000.

23 WE, THE JURY, FIND IN FAVOR OF COUNTER-DEFENDANT
24 S-3 CONCRETE PRODUCTS, INC., AND AGAINST COUNTER-CLAIMANT SABOUNI
25 ON SABOUNI'S CONTRACT CAUSES OF ACTION.

1 WE, THE JURY, FIND IN FAVOR OF COUNTER-DEFENDANT
2 LEAVER AND AGAINST COUNTER-CLAIMANT SABOUNI ON SABOUNI'S FRAUD
3 CAUSE OF ACTION.

4 WE, THE JURY, FIND IN FAVOR OF COUNTER-DEFENDANT
5 LEAVER AND AGAINST COUNTER-CLAIMANT SABOUNI ON SABOUNI'S BREACH
6 OF FIDUCIARY DUTY OF MAJORITY SHAREHOLDER CAUSE OF ACTION.

7 SO SAY YOU ALL?

8 THE JURORS: I DO.

9 THE COURT: LADIES AND GENTLEMEN OF THE JURY, YOU
10 HEARD YOUR VERDICTS AS JUST READ AND RECORDED BY THE CLERK
11 OF THIS COURT. WERE THOSE YOUR VERDICTS?

12 THE JURORS: YES.

13 THE COURT: DO COUNSEL DESIRE TO POLL THE JURY FURTHER?

14 MR. WILLMARTH?

15 MR. WILLMARTH: YES, YOUR HONOR.

16 THE COURT: YOU MAY POLL THE JURY, MR. WILLMARTH.

17 MR. WILLMARTH: WOULDN'T THE COURT DO THAT? ASK
18 EACH JUROR?

19 THE COURT: MR. CLERK?

20 THE CLERK: MR. JAMES G. LENTRY, IS THAT YOUR VERDICT
21 AS READ?

22 MR. LENTRY: YES, IT IS.

23 THE CLERK: MR. GILBERT F. AZEVEDO, JUNIOR, IS THAT
24 YOUR VERDICT AS READ?

25 MR. AZEVEDO: YES, IT IS.

1 THE CLERK: MS. ZETTIE L. GIDDENS, IS THAT YOUR VERDICT
2 AS READ?

3 MS. GIDDENS: YES, IT IS.

4 THE CLERK: JAMES W. ROWLEY, IS THAT YOUR VERDICT
5 AS READ?

6 MR. ROWLEY: YES, IT IS.

7 THE CLERK: LEE ASHFORD, JUNIOR, IS THAT YOUR VERDICT
8 AS READ?

9 MR. ASHFORD: YES.

10 THE CLERK: MS. ANNAMAE ELOLA, IS THAT YOUR VERDICT
11 AS READ?

12 MS. ELOLA: YES.

13 THE CLERK: THE VERDICT IS UNANIMOUS, YOUR HONOR.

14 THE COURT: THE VERDICT BEING UNANIMOUS, THE COURT
15 NOW ORDERS THAT THE VERDICTS BE ENTERED AND THE JUDGMENT BE
16 ENTERED ACCORDINGLY.

17 LADIES AND GENTLEMEN, THE COURT WISHES TO THANK YOU
18 FOR YOUR ATTENTION IN THIS CASE, FOR YOUR TIME, AND FOR YOUR
19 DILIGENCE. THE COURT UNDERSTANDS THAT IT WAS A VERY DIFFICULT
20 CASE FOR THE JURY TO LISTEN TO AND FOR THE JURY TO REACH A
21 DECISION IN THIS MATTER. AND THE COURT THANKS YOU.

22 AND I AM SURE THAT COUNSEL THANK YOU FOR YOUR ATTEN-
23 TIVENESS AND DILIGENCE IN THIS CASE AS WELL.

24 THE COURT WILL FURTHER INFORM YOU THAT YOU ARE NOT
25 UNDER ANY DUTY OR OBLIGATION TO DISCUSS THIS CASE WITH ANYONE

1 NOW OR WITH COUNSEL UNLESS YOU DESIRE TO. YOU ARE UNDER NO
2 DUTY OR OBLIGATION TO DO THAT.

3 OFTENTIMES COUNSEL WILL APPROACH YOU SO THEY CAN
4 BETTER UNDERSTAND WHY YOU REACHED THE VERDICTS THAT YOU DID
5 AND TO ASSIST THEM IN FURTHER HANDLING OF OTHER CASES. BUT
6 YOU ARE UNDER NO OBLIGATION TO DISCUSS WITH THEM UNLESS YOU
7 WANT TO.

8 NOW, THE ADMONITION THAT WAS PREVIOUSLY GIVEN TO YOU
9 THAT YOU CANNOT DISCUSS THIS MATTER WITH ANYONE IS NOW LIFTED.
10 YOU ARE FREE TO DISCUSS IT WITH ANYONE YOU PLEASE. AND AGAIN,
11 THE COURT THANKS YOU VERY MUCH, AND YOU ARE DISCHARGED.

12 COUNSEL, THANK YOU VERY MUCH. THE COURT WILL ORDER
13 THAT COUNSEL FOR THE PLAINTIFF WILL PREPARE AN APPROPRIATE
14 JUDGMENT AND SUBMIT IT TO THE COURT.

15 MR. STRABALA: YES, YOUR HONOR.

16 MR. WILLMARTH: ALL RIGHT.

17 [JURY EXCUSED]

18 MR. WILLMARTH: ONE OTHER THING, YOUR HONOR. WE
19 WILL BE MOVING FOR A NEW TRIAL. AS I UNDERSTAND IT, WE HAVE
20 10 DAYS TO FILE THAT. THEY HAVE TEN DAYS TO RESPOND, AND
21 IT HAS TO BE DONE WITHIN 10 DAYS BEFORE THE APPEAL TIME
22 RUNS, WHICH MEANS WE ARE LOOKING AT SOMETIME BETWEEN THE 30TH
23 OF DECEMBER AND THE 9TH OF JANUARY.

24 COULD YOU INDICATE WHAT DATE MIGHT BE APPROPRIATE?

25 THE COURT: I CAN HEAR IT JANUARY 8, 1981.

1 MR. WILLMARTH: AND LIKEWISE, WE WILL BE ASKING EX -
2 PARTE FOR THE STAY OF EXECUTION.

3 HOW CAN I HANDLE THAT?

4 THE COURT: ONE MOMENT, AND I WILL ADDRESS THAT.

5 IF ALL YOU NEED DO IS FILE IT WITHIN THE 10 DAYS,
6 I DON'T THINK I AM REQUIRED TO RULE UPON IT WITHIN THE 10 DAYS.

7 WHAT IS THE APPEAL PERIOD?

8 MR. WILLMARTH: THE APPEAL PERIOD IS 30 DAYS, ISN'T
9 IT?

10 THE COURT: 30 DAYS?

11 MR. WILLMARTH: HE HAS 10 DAYS TO RESPOND.

12 MR. STRABALA: THE APPEAL PERIOD DOESN'T RUN UNTIL --
13 THE COURT: UNTIL I REACH A FINAL JUDGMENT.

14 MR. WILLMARTH: IF THE JUDGMENT ISN'T FILED -- OF
15 COURSE, THE APPEAL PERIOD STARTS RUNNING AT THE TIME THE JUDGMENT
16 IS FILED. IF THE JUDGMENT IS FILED AND THEN I MOVE FOR A NEW
17 TRIAL, I HAVE 30 DAYS WITHIN WHICH THE JUDGMENT IS FILED?

18 MR. STRABALA: I BELIEVE IT EXTENDS BY THE TIME IT
19 TAKES YOU --

20 THE COURT: ON MY MOTION.

21 MR. STRABALA: SO THAT DOES NOT CUT IT OFF.

22 THE COURT: MR. DAVIS, THE APPEAL PERIOD STARTS TO
23 RUN AT THE TIME THAT THE JUDGMENT IS ENTERED AND ONCE THE MOTION
24 FOR NEW TRIAL IS FILED AFTER THE JUDGMENT IS ENTERED, THEN
25 THE TIME STARTS AGAIN FROM THE TIME THAT THE MOTION IS RULED ON.

1 IT STAYS UNTIL. SO YOU ARE SAFE UNTIL I MAKE A JUDGMENT ON
2 YOUR MOTION FOR THE NEW TRIAL.

3 MR. WILLMARTH: BUT THE 8TH OF JANUARY?

4 THE COURT: NO, WE ARE GOING TO SET IT FOR THE 15TH
5 OF JANUARY.

6 MR. WILLMARTH: FINE.

7 THE COURT: JANUARY 15. BUT YOU HAVE ONLY 10 DAYS
8 FROM TODAY'S DATE, EXCLUDING TODAY AND INCLUDING THE 10TH DAY,
9 WITHIN WHICH TO FILE THIS.

10 MR. WILLMARTH: WHAT ABOUT THE QUESTION OF THE STAY?
11 THERE IS AN AUTOMATIC STAY FOR 10 DAYS, AND THEN AFTER THAT
12 WITHIN THE DISCRETION OF THE COURT?

13 THE COURT: IF YOU WILL SUBMIT AN EX PARTE REQUEST,
14 MR. STRABALA, I AM GOING TO GRANT THE STAY OF EXECUTION UNTIL
15 I RULE ON THE MOTION FOR NEW TRIAL.

16 MR. STRABALA: OKAY.

17 MR. WILLMARTH: THANK YOU, YOUR HONOR.

18 MR. STRABALA: ONE LAST THING. THE COURT IS TO ASSESS
19 REASONABLE ATTORNEY'S FEES?

20 THE COURT: YES, THAT MATTER WILL BE TAKEN UP ON
21 JANUARY 15, AS WELL.

22 MR. STRABALA: YOU EXPECT US TO FILE THE NECESSARY
23 PAPERS THAT WE HAVE IN THE EVIDENCE BEFORE US? .

24 THE COURT: IF YOU HAVE ANY MEMOS YOU WISH TO FILE
25 ON IT, INCLUDING YOUR ACCOUNTING.

A-14

OFFICIAL REPORTERS
U. S. DISTRICT COURT
SAN FRANCISCO, CALIF. 94102

1 MR. STRABALA: YES, SIR.

2 THE COURT: ALL RIGHT. AND TIMELY, SO THAT COUNSEL
3 CAN MAKE APPROPRIATE OBJECTIONS IF HE DESIRES.

4 MR. STRABALA: THANK YOU, YOUR HONOR.

5 THE COURT: THANK YOU, GENTLEMEN. I WISH TO THANK
6 YOU FOR THE MANNER OF YOUR PRESENTATION OF THIS CASE AND FOR
7 YOUR COURTESY AND COOPERATION IN HANDLING THE MATTER.

8 MR. WILLMARTH: THANK YOU, YOUR HONOR.

9 THE COURT: THANK YOU VERY MUCH.

10 MR. STRABALA: GOOD LUCK ON THE BENCH. I THINK YOU
11 ARE GOING TO BE A GREAT JUDGE.

12 THE COURT: THANK YOU VERY MUCH, MR. STRABALA.

13 [WHEREUPON, COURT ADJOURNED FOR THE EVENING]
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ORIGINAL
FILED

DEC 11 1980

WILLIAM L. WHITTAKER
CLERK, U. S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

RECEIVED
DEC 16 1980
LONG & LEVIT-SF

JAMES M. LEAVER, an individual,
and S-3 CONCRETE PRODUCTS, INC.
a California corporation,

Plaintiffs,

v.

BAHIDJ B. SABOUNI, an individual,
and SABOUNI AND ASSOCIATES,

Defendants.

Civil Action No.
C 78-1185 RPA

BAHIDJ B. SABOUNI, an individual,
and SABOUNI AND ASSOCIATES,

Counterclaimants,

v.

JAMES M. LEAVER, an individual,
and S-3 CONCRETE PRODUCTS, INC.,
a California corporation,

Counterdefendants.

JUDGMENT

This action came on for trial before this Court and a jury, the Honorable Robert P. Aguilar, presiding, and the issues having been duly tried and the jury having returned its verdict, said verdict being the true and unanimous verdict of the jury in the above-captioned case, and the Court having determined there being no reason that judgment should not be entered in accordance with the jury verdicts:

ENTERED IN CIVIL DOCKET

12-15, 1980

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PARTIES OF RECORD

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1 IT IS HEREBY ORDERED AND ADJUDGED:

2 1. That the plaintiffs JAMES M. LEAVER and S-3
3 CONCRETE PRODUCTS, INC., recover of the defendants BAHIDJ B.
4 SABOUNI and SABOUNI AND ASSOCIATES the sum of Ninety-Eight
5 Thousand and Eighty-Three Dollars and no/100 (\$98,083.00) with
6 interest thereon at the rate of seven percent (7%) as provided
7 by law from the date of this judgment until paid.

8 2. That U.S. Letters Patent 3,247,294 issued to
9 BAHIDJ B. SABOUNI is found to be invalid because said Letters
10 Patent is both:

11 (a) Inoperable

12 (b) Obvious

13 3. That the fraud cause of action of plaintiffs
14 JAMES M. LEAVER and S-3 CONCRETE PRODUCTS, INC., against
15 BAHIDJ B. SABOUNI and SABOUNI AND ASSOCIATES is hereby
16 dismissed on the merits.

17 4. That all the counterclaims of the
18 counterclaimants BAHIDJ B. SABOUNI and SABOUNI AND ASSOCIATES
19 against counterdefendants JAMES M. LEAVER and S-3 CONCRETE
20 PRODUCTS, INC., are hereby dismissed on the merits.

21 5. The plaintiffs are entitled to taxable costs.

22 6. The Court, upon subsequent motion of plaintiffs,
23 will determine such reasonable attorney's fees that shall be
24 awarded to plaintiffs under the agreements providing for the
25 same.

26
27 Date: December 1, 1980

28 ROBERT P. AGUILAR

29 UNITED STATES DISTRICT JUDGE
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WILLIAM J. CLAYTON

U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

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MAR 7 1981

LONG & LEVIT-SF

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

JAMES M. LEAVER, an individual,
and S-3 CONCRETE PRODUCTS, INC.,
a California corporation,

Plaintiffs and
Counterdefendants,

v.

BAHIDJ B. SABOUNI, an individual,
and SABOUNI AND ASSOCIATES,

Defendants and
Counterclaimants.

C 78-1185 RPA

ORDER

The following motions came on for hearing before
this Court on February 19, 1981:

1. Defendants' motion for new trial;
2. Defendants' motion to retax costs;
3. Plaintiffs' cross motion for additional costs;
4. Plaintiffs' motion to vacate stay of execution
of judgment;
5. Plaintiffs' motion for order enjoining defend-
ants from disposing of assets; and
6. Plaintiffs' motion for attorneys fees.

The Court having carefully considered the pleadings
and documents on file herein and the arguments of counsel,

IT IS HEREBY ORDERED that:

The defendants' motion for a new trial is denied;

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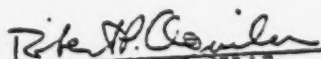
1 The defendants' motion to retax costs is denied;
2 The plaintiffs' cross motion for additional costs
3 is denied;

4 Plaintiffs' motion to vacate the stay of execution
5 of judgment is denied; and

6 Plaintiffs' motion for an order enjoining defendants
7 from disposing of assets is granted. Specifically, defendants
8 are enjoined from selling, conveying, disposing of, hypoth-
9 ecating or otherwise giving away any of the property in which
10 they have an interest, be it real, or personal, or any chose
11 in action wherever located and of whatever character or
12 nature, be it separate property or community property.

13 In regard to plaintiffs' motion for attorneys' fees,
14 the Court has studied the twelve factors enunciated by the
15 Ninth Circuit in Kerr v. Screen Extras Guild, Inc., 526 F.2d
16 67 (9th Cir. 1976), and HEREBY ORDERS that defendants pay to
17 plaintiffs' counsel as reasonable attorneys' fees the sum
18 of Thirty-five Thousand Dollars (\$35,000).

19 DATED: February 27, 1981.

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23 ROBERT P. AGUILAR
24 UNITED STATES DISTRICT JUDGE
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APR 17 1980

WILLIAM L. WHITTAKER
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

RECEIVED

APR 22 1980

LONG & LEVIT-36

JAMES M. LEAVER, et al.,)

Plaintiffs,)

v.)

NO. C-78-1185-ACW

BAHIDJ B. SABOUNI, et al.,)

Defendants.)

BAHIDJ B. SABOUNI, et al.,)

Counterclaimants,)

v.)

ORDER

JAMES M. LEAVER, et al.,)

Counterdefendants.)

Defendants move for reconsideration by the Magistrate of his Special Master Report filed February 25, 1980 and of the proposed Findings and Conclusions attached as Enclosure 1 thereto. This motion was opposed by written memo to which defendants filed a subsequent reply.

Having presided over the hearings which are the subject of the challenged Report, and having studied the written materials in support of the position taken by opposing counsel, I ordered the matter submitted without oral argument as provided for by Local Rule 220-1.

THE MOTION IS DENIED.

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1 I am satisfied that my Report reflects my
2 considered views and I find no basis for making any changes
3 or taking any of the actions urged by defendant.

4 If, however, the District Court on appeal is of a
5 contrary view and believes the Special Master should conduct
6 further testing, then it should be ordered under the follow-
7 ing terms and conditions.

8 1. The Special Master should be provided
9 with a copy of the patent in question.

10 2. The District Court should direct the
11 Special Master to conduct whatever tests he
12 feels necessary to determine operability.

13 3. The defendant should be directed to
14 bear all costs of testing, and employment
15 of experts as directed by the Special Master.
16 These costs may or may not be taxable,
17 depending on the ultimate outcome of the trial.

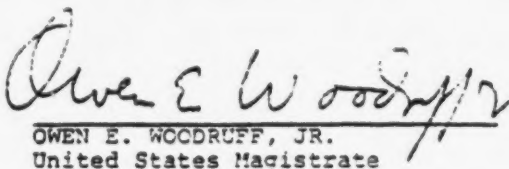
18 If this were to be ordered, it would be my inten-
19 tion to employ a qualified member of the patents bar to serve
20 as the Court's impartial expert. This expert, unhampered by
21 any acts, conduct or direction by any party or attorney to
22 this litigation, would coordinate testing by some competent
23 laboratory and would file a report and conclusions.

24 I agree that the work done so far under the order
25 of reference is replete with variables introduced by the
26 parties and later compensated for by other evidence. I also
27 agree that it is not easy to read the record and isolate
28 clear factual recitations that lead unerringly to but a single
29 conclusion. Nevertheless, the Special Master sifted
30 conflicting evidence, accepted some, rejected other and
31 reached a final result. As is always the case where evidence
32

//

1 is in conflict, the minds of reasonable men may differ. I
2 completed my work under the order of reference. I don't
3 intend to change it. It is now ready for appeal.

4 Respectfully submitted,

5
6 
7
8 OWEN E. WOODRUFF, JR.
9 United States Magistrate

10 Dated: April 18, 1980
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JUL 7 1980

WILLIAM L. WHITTAKER
CLERK, U. S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
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1980

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

LONG & LEVIT-SF

JAMES M. LEAVER, an individual,
and S-3 CONCRETE PRODUCTS, INC.,
a California corporation,
Plaintiffs,

vs.

BAHIDJ B. SABOUNI, an individual,
and SABOUNI AND ASSOCIATES,
Defendants.

NO. C-78-1185 ACW

ORDER DENYING DEFENDANT'S
MOTION FOR RECONSIDERATION
OF SPECIAL MASTER'S REPORT

BAHIDJ B. SABOUNI, an individual,
and SABOUNI AND ASSOCIATES,
Counterclaimants,

vs.

JAMES M. LEAVER, an individual,
and S-3 CONCRETE PRODUCTS, INC.,
a California corporation,
Counterdefendants.

Defendant Bahidj B. Sabouni has moved the Court to set aside the Special Master's Report, dated February 25, 1980. The issue has been fully briefed. The defendant's motion is denied.

This case involves the validity of a process patent and the enforcement of rights arising from the assignment of that patent. By Stipulation and Order of Reference, dated July 23, 1979, the matter was referred to Magistrate Woodruff to act as a master under Rule 53 of the Federal Rules of Civil Procedure and Rule 410 of the Local Rules of the U. S. District Court for the Northern District of California. The parties stipulated that:

The supervision of tests as to the operability of the process disclosed and claimed in the U.S.

Letters 3,247,294 shall be referred to Magistrate Owen Woodruff.... Magistrate Woodruff shall be charged with setting up and supervising tests of the operability of the patent, and to report his findings to the Court in the manner provided for reports in jury actions. The parties shall propose tests and procedures and suggest testing facilities, and the Magistrate shall, whenever reasonably possible, conduct such special tests as requested by a party. The Magistrate shall report the results of all tests and his conclusions to the Court and the parties.

The tests proposed by both parties were conducted by the court-appointed expert, Mr. Loren K. Salladay of Testing and Controls, Inc., and a hearing on this evidence was held before Magistrate Woodruff. On February 25, 1980, the master filed his report. Magistrate Woodruff concluded:

It would appear that Mr. Salladay's testimony is contradictory as the questions posed by plaintiff's counsel lead the expert to the conclusion that the patent is inoperable. On the other hand, questions asked by counsel for the defendant of the same witness and based on different test data would lead to the conclusion that the patent is operable.

Therefore, it becomes the duty of the Magistrate to analyze the tests performed in the light of the language of the patent and make a determination as to which set of tests performed by the expert are most valid in testing the operability of the invention.

After a careful review of the evidence before the court, together with briefs of counsel, I have concluded that the plaintiff's tests are not only more reliable but provide a basis on which the Magistrate can find that the presumption of operability of this process patent has been overcome.

The Magistrate also adopted the plaintiff's proposed findings and conclusions. On April 17, 1980, Magistrate Woodruff denied defendant's motion for reconsideration.

Defendant now moves, by a motion labeled "Motion for Reconsideration of Report of Special Master," that the Report and Findings be set aside in their entirety, and that evidence of the tests conducted under the Reference be admitted -- item by item -- at trial. As to the latter request, no motion is necessary. The parties are free to introduce any otherwise

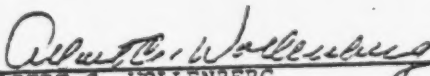
admissible evidence -- including evidence regarding the Salladay-conducted tests -- at trial. See Crateo, Inc. v. Intermark, Inc., 536 F.2d 862, 868 (9th Cir.), cert. denied, 429 U.S. 907 (1976); Eastern Fireproofing Co. v. United States Gypsum, 50 F.R.D. 140, 142 (D. Mass. 1970); Connecticut Importing Co. v. Frankfort Distilleries, 42 F. Supp. 225, 227 (D. Conn. 1940). The motion to set aside the entire Master's Report and Findings is hereby denied.

Defendant's objections to the Report can be classed into three categories: 1) erroneous conclusions regarding the tests and the patent's operability; 2) improper admission of certain documentary evidence; and 3) inclusion of improper discussions of the evidence and conclusions of law in the Master's Findings. Only the first objection is a possible basis for setting aside the entire Report. The other alleged errors in the Report can be easily remedied, if necessary, by deleting objectionable portions of the Report and Findings, upon the appropriate motions of the parties, before they are read to the jury. See FED. R. CIV. PRO. 53(e)(3); Connecticut Importing Co., supra, 42 F. Supp. at 227.

Defendant claims that the master was "clearly erroneous" in concluding that plaintiff's tests proved the patent's inoperability and that defendant's tests did not prove the opposite. Since the jury will be the ultimate judge of the master's conclusions in its role as finder of fact, the Court will weigh the sufficiency of the evidence supporting the master's findings of fact by the more deferential "substantial evidence" test. See Eastern Fireproofing Co., 50 F.R.D. at 143. Compare FED. R. CIV. PRO. 53(e)(2). Judged by this standard, the master's conclusions regarding the test results must be upheld. The Court is satisfied that these conclusions are supported by substantial evidence, and hence not unreasonable.

ACCORDINGLY, IT IS HEREBY ORDERED that defendant's motion for reconsideration of the Special Master's Report is DENIED without prejudice to the parties' right to raise specific objection to particular portions of the Report and Findings before or at trial if they are unable to stipulate to an edited version of the Report and Findings to be read to the jury. See Connecticut Importing Co., 42 F. Supp. at 227. The Court encourages that any such motions be made before trial to facilitate its own review.

DATED: July 30, 1980.


ALBERT C. WOLLENBERG
United States District Judge

1 MR. STRABELA: Sure.

2 THE COURT: Mr. Salladay, have you ever read
3 claims of this patent that we're talk talking about?

4 THE WITNESS: No, not in any detail. I was given
5 a copy of the patent early in the program, but I have not
6 concentrated on any aspects of it.

7 THE COURT: What I'd like you to do -- I want to
8 recess for ten minutes here, and in -- in that ten minutes,
9 I'm going to ask you to look at or just read these examples.

10 The way I read the patent, it describes the process.
11 It tells us what the claims are, and then it gives three
12 examples of how you can -- can utilize this process and get
13 the results claimed.

14 would you read that over, so that you'll be
15 familiar with -- with the example or these three examples
16 that are in there?

17 THE WITNESS: Starting with example No. 1?

18 THE COURT: Yes, start right up here.

19 I'm going to recess for ten minutes. I'll see you
20 back here at 25 minutes to 4:00.

21 (Whereupon, a brief recess was had.)

22 THE COURT: How we coming?

23 Mr. Salladay, are you ready?

24 THE WITNESS: I think that we could probably
25 proceed.

1 THE COURT: All right. I interrupted the
2 examination of Mr. Salladay, because the hearing is
3 progressing about as I suspected it would.

4 Now, the Order of Reference tells me that it's
5 ordered that the supervision of tests as to the operability
6 of the process disclosed and claimed in patent number so and
7 so is referred to me.

8 I will be charged with setting up and supervising
9 tests of the operability of the patent and report findings to
10 the Court in the manner provided for reports in jury actions.

11 Now, it says the parties shall propose tests and
12 the Magistrate shall, whenever reasonably possible, conduct
13 such special tests as requested by a party, and I'll have the
14 tests conducted by an independent testing laboratory.

15 Now, it seems to me that I have -- I've done a
16 couple of things. I have, with the assistance of the parties,
17 found an independent testing laboratory, and the parties have
18 proposed tests and procedures and suggested the testing
19 facilities, and I have allowed this to be done as requested
20 by the parties.

21 Now, what has developed from this is that the
22 plaintiff has proposed a set of tests; the defendant has
23 proposed a set of tests. Each side is, judging from the
24 briefs, trying to show me that the other tests are not valid,
25 that your side is valid, and what I can't get out of my head

1 is that the -- Mr. Sabouni had an idea for a process which he
2 claims is patentable, and he described the process, and he
3 gave examples, saying, if you mix the concrete and your -- or
4 the cement, and you go through these various processes, you
5 will get the result that I claim in my patent.

6 Now, so far as I'm concerned, I'm curious, and I
7 want to ask Mr. Salladay: If I were to give you a copy of
8 the patent as I have done here, could you go to your testing
9 laboratory and do what -- what the patent describes in the
10 three examples, and determine whether or not you could
11 duplicate and get the same results that -- that the man got
12 when he wrote those examples up?

13 THE WITNESS: Certainly. I don't know about the
14 results, but the basic apparatus is available.

15 THE COURT: Yes?

16 THE WITNESS: The principle is fairly simple. In
17 both the work --

18 THE COURT: Now, wait just a minute. You just
19 forget about them for a second.

20 THE WITNESS: Yeah.

21 THE COURT: You could set up the apparatus and do
22 what those examples describe, could you?

23 THE WITNESS: Yes, I think we could. We may need
24 some more definition on the equipment, how -- We're talking
25 here about special molds and vacuum mats and so on and so

1 forth, but I believe that we could truly reproduce exactly
2 what we're talking about here.

3 THE COURT: And, of course, being what you'd be
4 doing, you'd be following those examples, and you'd either
5 get the same results or different results, right?

6 THE WITNESS: Yes.

7 THE COURT: Well, the author of the patent
8 presented that to the Patent Office, and the Patent Office
9 issued a patent on the strength of what he represented.

10 Now, in terms of operability, it seems to me that
11 all that we should be concerned with here is an independent
12 tester taking his examples -- these examples in the patent
13 language, and if he can duplicate the results, then the
14 patent is operable; is that not correct, Mr. Strabala?

15 MR. STRABALA: The claims determine the patent
16 scope. Twenty-five U.S.C., section 112, says: "You will
17 follow the claims, and if the examples have steps or
18 procedures not in the claims, the examples could work, but
19 the patent is still inoperable if he fails in the claims to
20 distinctly and specifically claim his invention."

21 THE COURT: All right. Then I suspect we are -- I
22 can assure you, you're losing the Court. I have tried enough
23 patent cases -- and I do not claim to be a patent expert -- and
24 I can only tell you that I've tried maybe a half a dozen
25 patent cases where -- it is, oh, asserted that the patent

1 is invalid. Now, we bring in patent experts who read the
2 claims on the device and on the infringing device, and we
3 test in that fashion, but it seems to me that -- that
4 operability is someone looking at the process and either it
5 works or it doesn't. That's what you use the lab for. After
6 that, you use patent experts.

7 MR. STRABELA: That is right.

8 THE COURT: Right?

9 MR. STRABELA: As claimed. You look at the
10 invention as claimed, and in my opening statement, I told you
11 what was claimed. There is no particular dispute about what
12 is claimed. It's, can you get the results.

13 THE COURT: And how are you going to get the
14 result other than by using the examples that they -- the
15 inventor puts in his -- in his patent?

16 MR. STRABELA: You follow the claim, and if you
17 have followed the claim, and you fail to get the result, then
18 the patent is inoperable, and this is why I very pointedly
19 went through the steps and said these are cementitious
20 mixtures. They're what the claim calls for. This is what
21 you do. You put the pressure on it. This is how long you
22 hold it.

23 You can read claim one or anyone can read claim one,
24 and that's what it says to do, and that's what we did in our
25 testing program. We did what it says.

1 THE COURT: Just a moment.

2 MR. WILLMARTH: I just want to say, I think your
3 Honor is right, although I believe when I get to
4 cross-examine, I can see we did follow the patent.

5 We have different patent claims, your Honor. We
6 have three different examples. If by the time this hearing
7 is over, your Honor is convinced that both sides have met
8 them both, I think having the experts run the three specific
9 examples laid out in the patent would be an option, and then
10 at an appropriate time, we can argue whether the patent
11 examples are covered by claim one, claim seven or eight, or
12 whatever.

13 I think your proposal is a good one. I think it
14 may be premature after you listen to my examination.

15 THE COURT: Well, fine. Go ahead. Make your
16 record.

17 See, what I'm thinking of, as you conduct your
18 examination and you shoot down the defendant's tests, I'm
19 just wondering. What do I report back to -- to the District
20 Court? I really am baffled. If everybody did the same thing,
21 and we did it not with Mr. Sabouni who invented this, but
22 with an independent tester, and he came up with the same
23 result, then I'm with you, but to have "We used different
24 size molds." "We used -- we don't use the same curing time."
25 "The machinery breaks down."

1 I've got hodge-podge, but go ahead. We're going
2 to quit at 4:30. We'll never get through today.

3 MR. STRABELA: Well, I'm sure I won't be quite as
4 slow as it appears --

5 THE COURT: Well, but I've got a trial starting
6 Monday. I'll continue that trial. We'll go back at it
7 Monday morning, and you get all the evidence in that you want,
8 and I hope that you can clear me up, because I'm sure
9 confused.

10 MR. STRABELA: Well, okay. I would say this
11 simply. What you have to look at is the claims, as I said,
12 and we have set up a process to follow the claims. Had not
13 the defendant deviated, you would have had a comparison of
14 what he did and what we did, and they would have been black
15 and white. There wouldn't have been a big argument, and
16 that's what the problem's all about, and I thought when I
17 stipulated to this thing, that everybody was going to stick
18 to what they told the Court, and then they didn't, and that's
19 what's causing the problem.

20 THE COURT: All right. Please proceed.

21 MR. STRABELA: Now, Mr. Salladay, I believe we
22 were talking about the size of the cubes, and did anyone ever
23 propose to you that the four-by-four-by-eleven-inch beams be
24 cut to two-by-two-by-eight-inch beams?

25 A. No.

1 whole thing started. I have changed nothing to those things.

2 MR. WILLMARTH: What Mr. Strabala said is
3 accurate. He did serve me. I just haven't had a chance to
4 look at them right now for the purpose to determine whether
5 or not I want to make an exception.

6 I do want to make an exception to overlay number 1
7 in light of my previous objection based on the hearsay rule.
8 Namely that it is picking up a certain hearsay graphs of
9 Styropor concrete as to which I have not been able to
10 cross-examine, which I believe are using a different density,
11 air dry density as opposed to surface dry density.

12 They were put in subject to my motion to strike. I
13 would like at this point to strike the overlay and also those
14 exhibits that the plaintiff has put in that contain those
15 three graphs.

16 THE COURT: Well, I am going to overrule the
17 objection; I am going to let them come in for the reason that
18 I'll get to in a moment.

19 I'd like to ask a question. You know more about
20 Title 35 than I do. I have not been able to find in the
21 Statute; is there in the Statute or in case authority any
22 presumption of operability when a patent issues? Are you
23 aware of whether or not a presumption does or does not
24 exist? We have a presumption of validity but do we have any
25 presumption of operability?

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20 Title 35 than I do. I have not been able to find in the
21 Statute; is there in the Statute or in case authority any
22 presumption of operability when a patent issues? Are you
23 aware of whether or not a presumption does or does not
24 exist? We have a presumption of validity but do we have any
25 presumption of operability?

1 Do you know, Mr. Willmarth?

2 MR. WILLMARTH: I do not know.

3 MR. STRABALA: I cannot answer you precisely.

4 THE COURT: I would like you to check that out for
5 me. And if you look in Title 35 index under P for
6 presumptions, it isn't going to help you a bit. If you look
7 under P for patents and look for presumption under patents,
8 you don't find it there either. So I do that much of your
9 research for you. All right.

10 Gentlemen, I have made a couple notes here because
11 I am going to repeat something I said before and that's I
12 would like each of you to prepare proposed findings and
13 conclusions with record references and the evidentiary record
14 that each of you relies upon to support your findings and
15 conclusions.

16 And then I would like to fix, give you enough time
17 to get that done, fix a date for summations and give you an
18 opportunity to argue the record.

19 And as one of the incidents of your findings and
20 conclusions, I'd like to know whether or not there is not a
21 presumption as to operability.

22 Let me tell you how I view the record at the
23 moment, having listened to the evidence that has come in.
24 And here again, I think since I am the person you got to
25 convince, it's only fair that you know not only the current

1 state of the record, but the current state of what I
2 understand. And the record may be sufficient; I don't know.
3 I will listen carefully to your arguments.

4 But it seems to me that we started with certain
5 uncontroverted facts. The first one would be that the patent
6 issued for this process. The second is that an order of
7 reference sent the case to me for conduct of a hearing to
8 determine whether or not the patent which issued to Mr.
9 Sabouni is operable. We won't go into the rest of the order
10 of reference; you know it as well as I do.

11 Now, it seems to me that each of the parties
12 through their respective attorneys, having agreed upon the
13 expert who will be classed as the court expert, took it upon
14 themselves to give the expert certain instructions,
15 directions, if you will, and materials and asked or told the
16 expert what he was to do. And he did it. And he made his
17 report on the results that he achieved. And at this hearing
18 those results have been presented in evidentiary form and the
19 testimony to the lawyers' questions to establish whichever
2 side of the fence they are on.

7 Now, as I listened, it seems to me that Mr.
21 Salladay said that if you take the tests which I performed
23 under the plaintiffs' instructions, then there is no benefit
24 that can be demonstrated on plaintiffs' charts which chart
25 the test results.

1 And if you listen to the examination by the
2 defendant of the same expert, as to the tests performed on
3 behalf of the defendant, he came to the conclusion or the
4 expert expressed his opinion that there were demonstrable
5 differences by the use of the patent process. And you
6 achieved the desired results.

7 Now, that to me is not terribly conclusive. I
8 don't believe that we have a single set of standards; I don't
9 believe that we have the expert, the court's expert providing
10 an expert's opinion on the patent that tells me if the patent
11 is operable or not operable.

12 I asked the expert and I admit that the expert is
13 not held out to be a patent expert, so I don't fault you for
14 this; but I asked Mr. Salladay when he was on the stand if he
15 had read the patent and he said no. I asked him to read the
16 examples given in the patent and he did that during a recess.

17 So the expert knows his own field and that's how to
18 test concrete and he did what the parties told him to do and
19 each side got the results that they were looking for.

20 Now, what are the variables and, again, this is not
21 to assign blame or to be critical; but if you read the
22 language of the patent, the patent says that "in illustrating
23 or giving my samples of the process, I used a type three
24 cement."

25 So the plaintiff starts off and uses type one or

1 two. The patent says you use 2 x 2 x 6 slabs and the
2 defendant uses 4 x 4 cubes.

3 Now, it seems to me, you can argue back on the
4 other side of the hall when you are struggling with the issue
5 of validity with the varying language of the claims and
6 whether claims 1 through 6 permit extracting water or not.

7 I don't believe that there has been presented in
8 the evidence any clear-cut common pattern which talks about
9 step one and carries it all the way through and so on.

10 The patent talks about the use of asbestos, so the
11 defendant uses asbestos. He comes up with a result that is
12 out in left field and it's at least when we are looking at
13 graphs, asbestos gives a result that plots at such a
14 different location on the graph we have to use different
15 lines.

16 When I get all through, the question before me that
17 I have to settle is: Is this patent process operable.

18 I am not going to wind up this afternoon's session
19 by telling you that I have any clear-cut opinion one way or
20 the other; I am not at all sure of whether it is or is not on
21 the presentation made.

22 Now, I would much rather for purposes of my report
23 cast in the role of a special master, give each side the
24 opportunity to put in front of me what they want to put in
25 front of me, preserve the other side's record, more

1 specifically preserve Mr. Willmarth his objections and the
2 basis for those objections.

3 I have read your what amounts to trial briefs and
4 it may well be that I do have to examine the file wrapper to
5 look at the state of the art when this invention was applied
6 for or the patent was applied for.

7 But I must confess I have a little difficulty once
8 the patent is issued and it's a process patent, satisfying
9 myself that I have to know about that file wrapper history to
10 determine whether this process works or not. File wrapper
11 estoppel,

12 as I understand it, certainly is a very clear-cut field of
13 the law that deals with validity. But validity and
14 operability are two different things.

15 Now, I thought that my job was a fairly simple one
16 to define. Take some concrete and styrofoam bubbles, mix
17 them up with some water, and take one batch and put pressure
18 on it and the other batch don't put pressure on it. And when
19 you get through, test it. And if the batch with pressure
20 gives you the higher strength ratio, fine it works, as long
21 as you did it by the process. If it doesn't give you that
22 result, it doesn't work.

23 But, of course, I realize that I am guilty of
24 over-simplification; that in patents nothing is easy, at
25 least you don't make it easy for me.

1 So there is your record, you folks thought up the
2 lawsuit, you folks knew what Judge Wollenberg directed me to
3 do, and I didn't know anything about mixing concrete before
4 you came here and I certainly had to rely on you telling the
5 expert how you felt operability could be established. So you
6 had a free reign, you fed in your own data and out come the
7 results. Now, you go and put together what you think it
8 shows and you can argue for your relative positions.

9 Starting with the plaintiff again, Mr. Strabala, we
10 are going to talk again about a Friday afternoon; only this
11 time we will be talking closing arguments. So I guarantee
12 you we are going to finish arguing on the afternoon that we
13 start because I'll limit the argument. So talk about a
14 Friday afternoon at 1:30 and look at your calendar -- let me
15 get my docket book here.

16 MR. STRABALA: Could I ask you one thing, Your
17 Honor. You said you wanted our findings of facts filed
18 simultaneously with access to the or references to the
19 record; which means we have to get the record. Now, do we
20 have any --

21 THE COURT: I said I would prefer that. I am
22 always reluctant to order parties to prepare a transcript.
23 Whether you want to do that or not. I would prefer it;
24 because it seems to me that no matter which way I go, the
25 loser is going to appeal and back to the District Court and

COMPUTER TRANSCRIPTION

SCHILLER & COMBS, INC.
COURT AND DEPOSITION REPORTERS
605 POLK, SUITE 200
SAN FRANCISCO, CALIFORNIA 94102
TEL. (415) 373-7747

KEY WORD INDEXED

A-41

1 TOWNSEND and TOWNSEND
Charles E. Townsend, Jr.
2 Henry C. Bunson
Steuart Street Tower, 20th Floor
3 One Market Plaza
San Francisco, California 94105
4 Telephone: (415) 543-9600

5 Attorneys for Plaintiffs
6
7
8

ORIGINAL
FILED

MAY 30 1978

WILLIAM L. WHITTAKER
CLERK, U. S. DIST. COURT
SAN FRANCISCO

9 UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

10 JAMES M. LEAVER, an
individual, and S-3 CONCRETE
11 PRODUCTS, INC., a California
corporation,

12 Plaintiffs,

13 v.

14 BAHIDJ B. SABOUNI,
an individual, and
15 SABOUNI AND ASSOCIATES,

16 Defendants.
17

1185
CIVIL ACTION NO.

COMPLAINT FOR DECLARATORY
RELIEF RE PATENT INVALIDITY
AND UNENFORCEABILITY,
RECISSION, BREACH OF CONTRACT,
FRAUD AND DECLARATORY JUDGMENT
RE VALIDITY AND ENFORCEABILITY
OF CONTRACTS

18
19 Plaintiffs, James M Leaver (hereinafter "Leaver") and S-
20 3 Concrete Products, Inc. (hereinafter "S-3"), complain of
21 Bahidj B. Sabouni (hereinafter "Sabouni") and Sabouni and
22 Associates (hereinafter "Associates") as follows:

23 FIRST CLAIM

24 (Declaratory Judgment re Patent Validity and Enforceability)

25 Jurisdiction

26 1. This is an action to secure a Declaratory Judgment
27 with respect to the validity and enforceability of a United
28 States Patent, and to determine whether such Patent, if it
29 be valid, is being infringed by plaintiffs. This Court has
30 jurisdiction over this claim under 28 U.S.C. §1338.

31 2. This is an action for a Declaratory Judgment pursuant
32 to 28 U.S.C. §2201, for the purpose of determining an actual

1 controversy between the parties, as hereinafter more fully
2 appears.

3 3. Plaintiff, Leaver, is an individual who resides
4 and conducts business within the Northern District of California.

5 4. Plaintiff, S-3, is a California corporation caused
6 to be formed by Leaver to implement the various business
7 arrangements and agreements entered into with Sabouni regarding
8 U.S. Patent No. 3,247,294 as hereinafter pleaded. S-3 has
9 its principal place of business within the Northern District
10 of California and is the successor in interest to Astro-
11 Stone, Inc. (hereinafter "Astro-Stone").

12 5. Defendant, Sabouni, is an individual who resides
13 and conducts business within the Northern District of California.

14 6. Defendant, Associates, is a business association of
15 individuals, having its principal place of business and doing
16 business within the Northern District of California.

17 7. Sabouni claims to be the owner of U.S. Patent No.
18 3,247,294 and asserts said patent to be valid and used by
19 plaintiffs which plaintiffs deny, and a justiciable controversy
20 exists between the parties concerning the validity and enforce-
21 ability of said patent.

22 8. Sabouni has misused U.S. Patent No. 3,247,294 by
23 entering into license agreements which extend the patent
24 monopoly beyond the patent's date of expiration.

25 9. U.S. Patent No. 3,247,294 is void, invalid and
26 unenforceable against plaintiffs under the patent laws of
27 the United States and other applicable laws.

28 10. Products presently being manufactured and sold by
29 plaintiffs and processes used by plaintiffs in such manufacture
30 do not infringe U.S. Patent No. 3,247,294.

31 WHEREFORE, plaintiffs pray for relief as hereinafter
32 set forth.

1 strength concrete which had proven superior qualities
2 over all known similar products;

3 2) that Associates and Sabouni had commercially
4 useful and valuable technology on how to make such
5 product;

6 3) that said invention was the subject of a
7 valid patent;
8 none of which said allegations were true at the time they
9 were made.

10 17. At the time Associates and Sabouni made such mis-
11 representations of material fact and false and fraudulent
12 statements, they knew the same to be false and intended
13 Leaver, Astro-Stone and S-3, respectively, to rely upon
14 them.

15 18. Leaver, Astro-Stone and S-3, respectively, reasonably
16 relied upon the misrepresentations and false and fraudulent
17 statements made to them by Associates and Sabouni and would
18 not have entered into the respective agreements with Sabouni
19 but for such statements.

20 19. There has been a failure of consideration on the
21 part of Sabouni respecting the agreements identified in
22 paragraphs 11, 12, 13 and 14. Recission of such agreements
23 is necessary and proper because plaintiffs have no adequate
24 remedy at law. Plaintiffs Leaver and S-3 have given proper
25 written notice of recission and repudiation of all such
26 agreements in accordance with applicable law, and a copy of
27 such written notice is attached hereto (Exhibit E).

28 WHEREFORE, plaintiffs pray for relief as hereinafter
29 set forth.

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1 26. Associates and Sabouni made such statements to
2 plaintiffs intentionally, willfully and in reckless disregard
3 of plaintiffs' rights and to mislead and defraud plaintiffs
4 to their injury, and to the personal financial gain of Sabouni
5 at the expense of plaintiffs. An award of punitive damages
6 is proper and appropriate.

7 FIFTH CLAIM

8 (Declaratory Judgment re Validity and Enforceability of Contracts)

9 27. Plaintiffs incorporate the allegations of paragraphs
10 11 through 19 of this Complaint, and reallege those allegations
11 as if fully set forth herein.

12 28. Plaintiffs allege that:

13 (a) the "Partnership Agreement", a copy of which
14 is attached hereto as Exhibit A, is void and unenforceable
15 against Leaver;

16 (b) the "Security Agreement", a copy of which is
17 attached hereto as Exhibit D, is void and unenforceable
18 against S-3; and that

19 (c) the "Sale of Patent Rights" agreements, copies
20 of which are attached hereto as Exhibits B and C are
21 void and unenforceable against plaintiffs.

22 29. Sabouni has asserted that all said agreements are
23 valid and enforceable, and a justiciable controversy exists
24 between the parties concerning same.

25 WHEREFORE, plaintiffs pray that this Court order, adjudge
26 and decree:

27 (A) That United States Patent No. 3,247,294 is invalid
28 and unenforceable.

29 (B) That plaintiffs are not using or infringing United
30 States Patent No. 3,247,294.

31 (C) That Sabouni return to plaintiffs and each of them
32 all consideration or any other thing of value

1 received by Sabouni from plaintiffs, or any of
2 them, pursuant to the "Partnership Agreement",
3 "Sale of Patent Rights" agreements or "Security
4 Agreement".

5 (D) That Sabouni pay to plaintiffs damages for breach
6 of contract in the amount proven at trial.

7 (E) That Associates and Sabouni pay to plaintiffs
8 damages for fraud in the amount proven at trial.

9 (F) That Associates and Sabouni pay to plaintiffs
10 punitive damages in an amount to be assessed by
11 the trier of facts at trial.

12 (G) That Associates and Sabouni pay to plaintiffs
13 their litigation expenses including costs and
14 reasonable attorney fees.

15 (H) That this Court award such other and further relief
16 as it deems just and proper.

17
18 TOWNSEND and TOWNSEND

19
20 Dated: *May 30, 1978*

21 By *Henry C. Hunsow*
22 *Henry C. Hunsow*
23 Attorneys for Plaintiffs
24
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PARTNERSHIP AGREEMENT

THIS PARTNERSHIP AGREEMENT, made this 26th day of April, 1976, by and between SAHIDU B. SABOUNI, an individual, residing at 4147 Canyon Road, Lafayette, California (hereinafter referred to as "Sabouni") and JAMES M. LEAVER, an individual residing at 4145 Canyon Road, Lafayette, California (hereinafter referred to as "Leaver").

W I T N E S S E T H :

1. Formation of Partnership. As of the Effective Date hereof, as defined in Section 24 hereof, the parties hereby associate themselves as partners in a general partnership (hereinafter the "Partnership") under the laws of the State of California, for the purposes and on the terms and conditions stated in this agreement. The parties are hereinafter sometimes referred to jointly as the "Partners". The Partners shall execute a fictitious business name certificate and cause it to be filed and published as required by the California Business and Professions Code.

2. Partnership Name. The firm name of the Partnership shall be S-3 Concrete Company.



3. Principal Place of Business. The principal place of business of the Partnership shall be 4145 Canyon Road, Lafayette, California.

4. Business of the Partnership. The business of the Partnership shall be: (a) to engage in prototype development of specific products whose manufacture involves the use of an invention as defined by one or more claims of U.S. Patent No. 3,247,294 (which patent covers a process for manufacturing a product known as S-3 concrete); and (b) to act as agent for the owner of said patent by promoting the use and sale to third parties of S-3 concrete patent rights and know-how for specific products or fields of use developed by the Partnership with respect to the above patent; both in consideration of commissions payable by the owner of said patent out of proceeds derived from the transfer of said patent rights and know-how all in accordance with the Agency Agreement in the form of Exhibit A attached hereto, and possible future Agency Agreements in the form of Exhibit B attached hereto.

5. Indefinite Term of the Partnership. The Partnership shall commence upon the Effective Date, as that term is defined in Section 24 hereof, and shall continue for an indefinite period until dissolved hereunder or by operation of law.

6. Leaver's Initial Contribution. Within 5 business days after the Effective Date, Leaver shall contribute to the Partnership as capital the sum of \$100,000.00.

7. Additional Contributions. No Partner may make any voluntary contribution of capital to the Partnership without the consent of the other Partner.

8. Partners' Shares of Partnership Profits and Losses. The profits and losses of the Partnership shall be shared, subject to the provisions of Section 12 hereof, in the following proportions.

Sabouni . . . 50%

Leaver . . . 50%

9. Management of the Partnership. Each Partner shall participate in the control, management and direction of the business of the Partnership and each shall have an equal voice in the exercise of such control, management and direction.

The following acts may be done only with the consent of both of the Partners:

- (a) assign the Partnership property in trust for creditors or on the assignee's promise to pay the debts of the Partnership;
- (b) dispose of the goodwill of the business;
- (c) do any other act which would make it impossible to carry on the ordinary business of the Partnership;
- (d) confess a judgment against the Partnership;
- (e) submit a Partnership claim to arbitration;

(f) borrow money in the partnership's name.

10. Capital Accounts. A capital account shall be maintained for each Partner. Each contribution of cash made by a Partner shall be credited to his capital account. The capital account of each Partner shall be charged with the amount of any losses or expenses allocable to such Partner, to the extent that such losses or expenses exceed the balance in such Partner's income account.

11. Income Accounts. An income account shall be maintained for each Partner. A Partner's share of the Partnership's income shall be credited to such Partner's income account. Such account shall be charged, to the extent of the balance thereof, with any losses or expenses of the Partnership allocable to the Partner, and with the amount of any current distributions to the Partner.

12. Allocation of Partnership Expenses. Any Partnership expenses or capital expenditure paid from funds contributed by Leaver under Section 6 hereof or either Partner and permitted under Section 7 hereof shall be treated as an expense or expenditure of such Partner exclusively; and any such expense, including depreciation on assets acquired with funds contributed by such Partner, shall be charged against his income or capital account, as appropriate. Any Partnership expense or capital expenditure paid with other funds, including borrowings, shall be allocated among the Partners in their general profit-and-loss

- 1 -

pertaining to the Partnership's operations and each Partner shall have the right to inspect and copy the contents of such file at reasonable hours, in person or through a representative authorized in writing.

16. Salaries to Partners.

(a) Salaries. Sabouni and Leaver shall be entitled to such salaries as may from time to time be determined by the unanimous written consent of all the Partners. These salaries shall be treated as Partnership expenses in determining its profits or losses.

(b) Outside Activities. Within such fields of use, territories and time periods as may be set forth in each Agency Agreement, Sabouni agrees that he shall not engage in enterprises in competition with the Partnership. During the term of this Partnership and for a period of the later to occur of (i) the date 10 years after the date of termination of the Partnership or (ii) the date upon which the last payment of a commission is payable under any Agency Agreement, Leaver agrees that, with the exception of any rights he may have under Section 19 hereof, he shall not engage in enterprises in competition with the Partnership or in enterprises (other than those in which his equity ownership or beneficial ownership is 5% or less) engaged in any manner in the development, sale

or licensing of technology (whether or not involving patents), patents or information relating to S-3 concrete or to products manufactured by means of the process disclosed in U.S. Patent No. 3,247,294. Except as otherwise provided in this Section 16(b) hereinabove, the partners need not offer business opportunities to the partnership but may take advantage of those opportunities for their own accounts or for the accounts of other partnerships or enterprises with which they are associated. Neither the partnership nor any other partner shall have any right to any income or profit derived by a partner from any enterprise or opportunity permitted by this section.

17. No Transfer or Partnership Interest. No Partner shall assign, pledge, encumber, sell or otherwise dispose of all or any part of his interest as a Partner in the Partnership.

18. Dissolution of the Partnership. The Partnership shall be dissolved and terminated (subject to Section 19 hereof) on any Partner's insolvency, death, bankruptcy, permanent physical or mental disability or voluntary withdrawal from the Partnership.

19. Option to Purchase Partner's Interests. If one of the events set forth in Section 18 shall occur, the Partnership shall not wind up in the manner described in Section 21 if, within 90 days after the other Partner has received notice of such event, he elects to purchase the insolvent, deceased, bankru

disabled or withdrawn Partner's interest, and in such event the business of the Partnership shall continue and shall not be wound up or liquidated. The price to be paid for the interest of the insolvent, deceased, bankrupt, disabled or withdrawn Partner shall be equal to the value of that interest as determined under Section 20 hereof and shall be paid as set forth in said Section 20.

20. Valuation of Partnership Interest. In the event of a dissolution caused by one of the events set forth in Section 18, with respect to which an election pursuant to Section 19 has been made, the Partner not causing such dissolution shall purchase the interest of the Partner causing such dissolution at its fair market value as determined by a competent appraiser selected by mutual agreement of the Partner causing such dissolution (or his personal representative) and the Partner not causing such dissolution.

Such purchase price may be paid by the Partner not causing dissolution in cash, by promissory note or partly by both. Any promissory note shall be dated as of the effective date of the election to purchase, shall mature in not more than 5 years, shall be payable in installments that come due not less frequently than annually, and shall bear interest at the rate of 6% per annum.

21. Winding Up. In the event of a dissolution of the Partnership to which the provisions of Sections 19 and 20 do not apply, the Partnership shall engage in no further business other than necessary to wind up the business and distribute the assets; the assets of the Partnership, other than any rights to receive Agency Agreement commissions after the date of dissolution (and such rights to receive commissions, to the extent necessary to satisfy the requirements of subsections (a) through (d) below), shall be liquidated in an orderly manner and such sublicenses and the proceeds of liquidation shall be applied as follows:

(a) the expenses of liquidation and the debts of the Partnership, other than debts owing to the Partners, shall be paid, or assumed by the Partners;

(b) such debts as are owing to the Partners, including unpaid salaries, loans and advances, shall be paid;

(c) the balance remaining in the Partners' capital accounts shall be distributed to them;

(d) the balance remaining in the Partners' income accounts shall be distributed to them;

(e) the remaining assets, including any undistributed rights to receive commissions referred to hereinabove, shall

be distributed to the Partners in their profit-and-loss sharing ratios in effect under Section 3 immediately before dissolution of the Partnership.

22. Amendment. This Partnership Agreement may be amended only by a written instrument signed by all of the Partners.

23. Notices. All notices, payments, statements or other communications required or authorized to be given hereunder shall be given or transmitted by certified or registered United States mail, postage prepaid, addressed to the party entitled to such notice, payment, statement or other communication as follows:

Bahidj B. Sabouni

Bahidj B. Sabouni

P. O. Box 727

Berkeley, CA 94701

James M. Leaver

James M. Leaver

4145 Canyon Road

Lafayette, CA 94549

Any notice required to be given hereunder shall be deemed to be given three (3) days after the date of registration or certification by the United States Postal Service, if properly addressed and mailed with postage prepaid; and any period specified shall run from the giving of such notice.

A Partner may change his address for purposes of this section by written notice to the other Partner in the manner described in this section.

24. Effective Date. Sabouni entered into an Agreement for Sale of Patent Rights with Mario Vallendi and U. S. Industrial Foam, Inc. dated October 28, 1974, which provides, inter alia, for the right of the grantee to use the patent referred to in Section 1 above in the State of California. Sabouni represents that he has furnished Leaver with a true and correct copy of such Agreement for Sale of Patent Rights and Leaver acknowledges receipt thereof. The effectiveness of this Partnership Agreement, and of the rights and obligations of the Partners hereunder (including but not limited to Leaver's obligation to make an initial capital contribution hereunder), are expressly conditioned upon delivery to Leaver of an opinion of the law firm of Thelen, Marrin, Johnson & Bridges, to the effect that the aforementioned Agreement of Sale of Patent Rights has been duly terminated, and that the grantees thereunder have no further rights to use the patent referred to in Section 1 above. If such opinion is delivered, the date of such opinion shall be the "Effective Date" for purposes of this Partnership Agreement. If the Effective Date has not occurred on or before 90 days from the date first set forth above, this Partnership

Agreement shall be null and void and of no force or effect.

25. Severability. If any provision of this Agreement is declared invalid by a court of competent jurisdiction, such provision shall be stricken and the remaining provisions shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Partnership Agreement the day and year first above written.

Rahid B. Sabouni
Rahid B. Sabouni

James M. Leaver
James M. Leaver

STATE OF CALIFORNIA

COUNTY OF Contra Costa

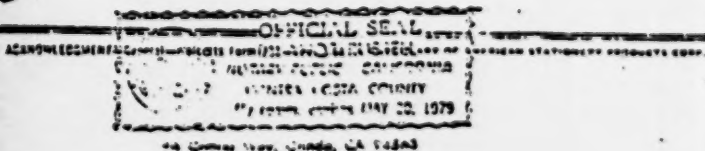
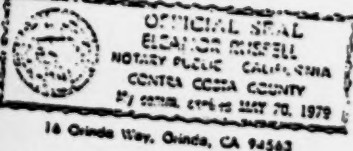
ON April 26 19 76
before me, the undersigned, a Notary Public in and for said State, personally appeared
Rahid B. Sabouni and James M. Leaver

known to me,
to be the persons whose name have been subscribed to the within instrument,
and acknowledged to me that they executed the same.

WITNESS my hand and official seal.

Phono Russell

Notary Public in and for said State.



AGENCY AGREEMENT

THIS AGREEMENT, made and entered into this 26th day of April, 1976, by and between BAHIDJ B. SABOUNI, an individual residing at 4147 Canyon Road, Lafayette, California (hereinafter referred to as "Owner") and S-3 CONCRETE COMPANY, a California general partnership consisting of Bahidj B. Sabouni and James M. Leaver, having its principal place of business at 4145 Canyon Road, Lafayette, California;

W I T N E S S E T H:1. Definitions.

(a) Patent Rights means U.S. Patent No. 3,247,294; all Improvements as defined in paragraph 1(c) hereof; and all U.S. Patent applications and resulting U.S. Patents on Improvements.

(b) The Territory means the United States of America and its territories and possessions.

(c) Improvements means any and all inventions, products, processes, apparatus and compositions of matter invented (either as sole or joint inventor) by Owner or Agent or as to which ownership or patent rights are acquired by Owner or Agent and which meet one or more of the following conditions: (1) such invention, product, process, apparatus or composition of matter would, if manufactured, used or sold within the United States by a third party without a license,

infringe U.S. Patent No. 3,247,294; (2) such invention, product, process, apparatus, or composition of matter, although not within the scope of (i.e., would not infringe) said U.S. Patent No. 3,247,294, nevertheless is primarily useful for the practice of or utilization of the inventions of said patent, or as a substitute for product, processes, apparatus and/or compositions of matter described in said U.S. Patent 3,247,294.

(d) Field of Use means the following products coming under or made by methods coming under Patent Rights: reservoir covers and roofing shakes. Field of Use shall also include other uses of the specifically named products in this paragraph 1(d) for which such products, if developed by the Partnership, may be used without further modification or development.

2. Appointment of Agent.

Owner hereby appoints Agent as its exclusive agent for the purpose of negotiating, on behalf of Owner, transfers of Patent Rights (by means of sales, licenses or otherwise) permitting others to use the Patent Rights in the Territory and for the Field of Use. Such exclusive agency shall last for a period of eighteen months from the Effective Date referred to in paragraph 10; during such period Owner shall not sell, license, or otherwise transfer to others the right to use the Patent Rights or any portion thereof in the Territory and for the Field of Use without the prior written consent of Agent. If, during such

eighteen month period, Owner shall enter into any agreement for the transfer of Patent Rights permitting others to use the Patent Rights in the Territory and for the Field of Use, whether by sale, license or otherwise, then the period of such exclusive agency (and Owner's obligations as set forth in the preceding sentence) shall be extended to the life of U.S. Patent No. 3,247,294.

3. Duties of Agent.

Agent agrees to use reasonable efforts to locate and negotiate with potential transferees of the Patent Rights within the Territory and Field of Use, during the period of exclusive agency referred to in paragraph 2. During such period, Agent agrees further that it shall proceed in good faith with the development of prototype products within the Field of Use.

4. Compensation of Agent.

As compensation for its services hereunder, Agent shall be entitled to a commission equal to fifty percent (50%) of all payment, compensation or remuneration received by Owner (regardless of whether received during or after the period of exclusive agency referred to in paragraph 2) from the transfer by means of sale, license or otherwise of any Patent Right or part thereof made by Owner within the period of exclusive agency referred to in paragraph 2 permitting others to use the Patent

Rights or part thereof in the Territory and for the Field of Use. Such commission shall be payable to Agent within thirty (30) days after receipt by Owner of the payment, compensation or remuneration upon which such commission is based.

5. Ownership of Inventions and Know-How.

From time to time, Agent may become entitled to inventions or know-how resulting from the development of products within the Field of Use. All such inventions or know-how shall be promptly and fully disclosed by Agent to Owner and shall become the sole property of Owner, subject to Agent's rights to use such inventions or know-how within the Field of Use. At Owner's request, Agent shall execute or cause to be executed all documents which are reasonably necessary to perfect and protect Owner's interest in such inventions and know-how.

6. Assignability.

This Agreement is binding upon and shall insure to the benefit of Agent and Owner and their successors and assigns.

7. Notices.

All notices, payments, statements or other communications required or authorized to be given hereunder shall be given or transmitted by certified or registered United States mail, postage prepaid, addressed to the party entitled to such notice, payment, statement or other communication as follows:

Owner

Bahidj B. Sabouni
P.O. Box 727
Berkeley, CA 94701

Agent

S-3 Concrete Company
c/o James M. Leaver
4145 Canyon Road
Lafayette, CA 94549

Any notice required to be given hereunder shall be deemed to be given three (3) days after the date of certification or registration by the United States Postal Service, if properly addressed and mailed with postage prepaid; and any period specified shall run from the giving of such notice.

A party may change his address for purposes of this paragraph by written notice to the other party in the manner described in this paragraph.

8. Applicable Law.

This Agreement shall be governed by and interpreted under the laws of the State of California.

9. Severability.

If any provision of this Agreement is declared invalid by a court of competent jurisdiction, such provision shall be stricken and all the remaining provisions shall remain in full

force and effect.

10. Effective Date.

The effectiveness of this Agreement, and of the rights and obligations of the parties hereto (with the exception of Owner's obligations under the second sentence of paragraph 2, which shall commence immediately) are expressly conditioned upon the occurrence of the "Effective Date", as defined in Section 24 of a Partnership Agreement dated the date hereof between Bahidj B. Sabouni and James M. Leaver. If such Effective Date has not occurred on or before 90 days from the date first set forth above, this Agency Agreement shall be null and void and of no force or effect.

IN WITNESS WHEREOF, the parties hereto have executed this Agency Agreement the day and year first above written.

STATE OF CALIFORNIA,

COUNTY OF Contra Costa

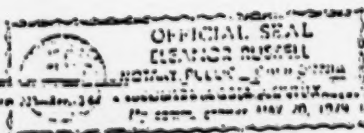
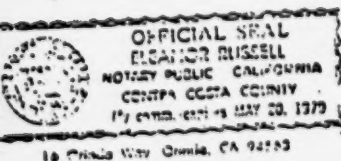
ON April 26 1976
before me, the undersigned, a Notary Public in and for said State, personally appeared
Bahidj B. Sabouni and James M. Leaver

known to me,
to be the person(s) whose name have been subscribed to the within instrument,
and acknowledged to me that they executed the same.

WITNESS my hand and official seal.

Eleanor Russell

Notary Public in and for said State.



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AGENCY AGREEMENT

THIS AGREEMENT, made and entered into this _____ day of _____, 1976, by and between BAHIDJ B. SABOUNI, an individual residing at 4147 Canyon Road, Lafayette, California (hereinafter referred to as "Owner") and S-3 CONCRETE COMPANY, a California general partnership consisting of Bahidj B. Sabouni and James M. Leaver, having its principal place of business at 4145 Canyon Road, Lafayette, California;

W I T N E S S E T H:1. Definitions.

(a) Patent Rights means U.S. Patent No. 3,247,294; all Improvements as defined in paragraph 1(c) hereof; and all U.S. Patent applications and resulting U.S. Patents on Improvements.

(b) The Territory means the United States of America and its territories and possessions.

(c) Improvements means any and all inventions, products, processes, apparatus and compositions of matter invented (either as sole or joint inventor) by Owner or Agent or as to which ownership or patent rights are acquired by Owner or Agent and which meet one or more of the following conditions: (1) such invention, product, process, apparatus or composition of matter would, if manufactured, used or sold within the United States by a third party without a license,

infringe U.S. Patent No. 3,247,294; (2) such invention, product, process, apparatus, or composition of matter, although not within the scope of (i.e., would not infringe) said U.S. Patent No. 3,247,294, nevertheless is primarily useful for the practice of or utilization of the inventions of said patent, or as a substitute for product, processes, apparatus and/or compositions of matter described in said U.S. Patent 3,247,294.

(d) Field of Use means the following products coming under or made by methods coming under Patent Rights: reservoir covers and roofing shakes. Field of Use shall also include other uses of the specifically named products in this paragraph 1(d) for which such products, if developed by the Partnership, may be used without further modification or development.

2. Appointment of Agent.

Owner hereby appoints Agent as its exclusive agent for the purpose of negotiating, on behalf of Owner, transfers of Patent Rights (by means of sales, licenses or otherwise) permitting others to use the Patent Rights in the Territory and for the Field of Use. Such exclusive agency shall last for a period of _____ months from the date first set forth above; during such period Owner shall not sell, license, or otherwise transfer to others the right to use the Patent Rights or any portion thereof in the Territory and for the Field of Use without the prior written consent of Agent. If, during such

_____ month period, Owner shall enter into any agreement for the transfer of Patent Rights permitting others to use the Patent Rights in the Territory and for the Field of Use, whether by sale, license or otherwise, then the period of such exclusive agency (and Owner's obligations as set forth in the preceding sentence) shall be extended to the life of U.S. Patent No. 3,247,294.

3. Duties of Agent.

Agent agrees to use reasonable efforts to locate and negotiate with potential transferees of the Patent Rights within the Territory and Field of Use, during the period of exclusive agency referred to in paragraph 2. During such period, Agent agrees further that it shall proceed in good faith with the development of prototype products within the Field of Use.

4. Compensation of Agent.

As compensation for its services hereunder, Agent shall be entitled to a commission equal to fifty percent (50%) of all payment, compensation or remuneration received by Owner (regardless of whether received during or after the period of exclusive agency referred to in paragraph 2) from the transfer by means of sale, license or otherwise of any Patent Right or part thereof made by Owner within the period of exclusive agency referred to in paragraph 2 permitting others to use the Patent

Rights or part thereof in the Territory and for the Field of Use. Such commission shall be payable to Agent within thirty (30) days after receipt by Owner of the payment, compensation or remuneration upon which such commission is based.

5. Ownership of Inventions and Know-How.

From time to time, Agent may become entitled to inventions or know-how resulting from the development of products within the Field of Use. All such inventions or know-how shall be promptly and fully disclosed by Agent to Owner and shall become the sole property of Owner, subject to Agent's rights to use such inventions or know-how within the Field of Use. At Owner's request, Agent shall execute or cause to be executed all documents which are reasonably necessary to perfect and protect Owner's interest in such inventions and know-how.

6. Assignability.

This Agreement is binding upon and shall insure to the benefit of Agent and Owner and their successors and assigns.

7. Notices.

All notices, payments, statements or other communications required or authorized to be given hereunder shall be given or transmitted by certified or registered United States mail, postage prepaid, addressed to the party entitled to such notice, payment, statement or other communication as follows:

Owner

Bahidj B. Sabouni

P.O. Box 727

Berkeley, CA 94701

Agent ;

S-3 Concrete Company

c/o James M. Leaver

4145 Canyon Road

Lafayette, CA 94549

Any notice required to be given hereunder shall be deemed to be given three (3) days after the date of certification or registration by the United States Postal Service, if properly addressed and mailed with postage prepaid; and any period specified shall run from the giving of such notice.

A party may change his address for purposes of this paragraph by written notice to the other party in the manner described in this paragraph.

8. Applicable Law.

This Agreement shall be governed by and interpreted under the laws of the State of California.

9. Severability.

If any provision of this Agreement is declared invalid by a court of competent jurisdiction, such provision shall be stricken and all the remaining provisions shall remain in full

force and effect.

IN WITNESS WHEREOF, the parties hereto have executed
this Agency Agreement the day and year first above written.

BAHIDJ B. SABOUNI
("Owner")

S-3 CONCRETE COMPANY, a general
partnership

By _____
JAMES M. LEAVER
partner

By _____
BAHIDJ B. SABOUNI,
partner

AMENDMENT
TO
PARTNERSHIP AGREEMENT AND AGENCY AGREEMENT

THIS FIRST AMENDMENT TO PARTNERSHIP AGREEMENT AND AGENCY AGREEMENT, made this 28th day of May, 1976, by and between BAHIDJ B. SABOUNI, an individual, residing at 4147 Canyon Road, Lafayette, California, (hereinafter referred to as "Sabouni") and JAMES M. LEAVER, an individual residing at 4145 Canyon Road, Lafayette, California, (hereinafter referred to as "Leaver");

W I T N E S S E T H :

WHEREAS, Sabouni and Leaver entered into a Partnership Agreement dated April 26, 1976, pursuant to which they agreed to form a partnership to be known as "S-3 Concrete Company" (hereinafter the "Partnership Agreement"); and

WHEREAS, pursuant to such Partnership Agreement, Sabouni and Leaver entered into an Agency Agreement dated April 26, 1976 (hereinafter the "Agency Agreement"); and

WHEREAS, Sabouni and Leaver desire to amend the Partnership Agreement and Agency Agreement in the manner set forth herein;

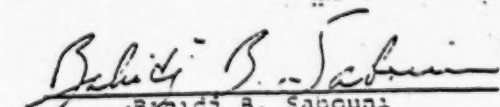
NOW, THEREFORE, Sabouni and Leaver do hereby agree as follows:

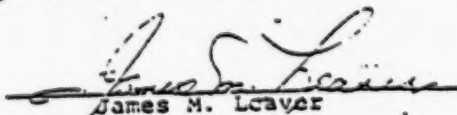
1. The "Effective Date", as that term is defined in the Partnership Agreement, shall be 12:01 A.M., June 1, 1976, for all purposes of the Partnership Agreement and of the Agency Agreement;

2. The "Territory", as that term is defined in the Agency Agreement, shall not include the State of California until the Agreement for Sale of Patent Rights referred to in Section 21 of the Partnership has been duly terminated;

3. Except as amended hereby, the Partnership Agreement and the Agency Agreement shall continue in full force and effect.

IN WITNESS WHEREOF, Sabouni and Leaver have executed this First Amendment to Partnership Agreement and Agency Agreement the day and year first above written.


Benidj B. Sabouni


James M. Leaver

AGREEMENT FOR SALE OF PATENT RIGHTS

This Agreement is entered into as of the _____ day of August, 1976, between BAHIDJ B. SABOUNI of Berkeley, California 94701 (hereinafter referred to as "Grantor") and S-3 CONCRETE PRODUCTS, INC. (hereinafter referred to as "Grantee"), a California corporation having a place of business at 4145 Canyon Road, Lafayette, California 94549.

1. Definitions. As used in this Agreement:

(a) "Patent Rights" means U. S. Patent No. 3,247,294; all Improvements as defined in paragraph 1(c) hereof; and all U. S. patent applications and resulting U. S. Patents on Improvements.

(b) "Territory" means the State of California, U.S.A.

(c) "Improvements" means any and all inventions, products, processes, apparatus and compositions of matter invented (either as sole or joint inventor), by Grantor or Grantee or as to which ownership or patent rights are acquired by Grantor or Grantee and which meet one or more of the following conditions: (1) such invention, product, process, apparatus or composition of matter would, if manufactured, used or sold within the United States by a third party without a license, infringe U. S. Patent No. 3,247,294; (2) such invention, product, process, apparatus, or composition of matter, although not within the scope of (i.e., would not infringe) U. S. Patent No. 3,247,294, nevertheless is primarily useful for the practice of or utilization of the inventions of said patent, or as a substitute for products, processes, apparatus and/or compositions of

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matter described in U. S. Patent No. 3,247,294.

(d) "Products" means all products coming under or made by methods coming under Patent Rights.

(e) "Fields of Use" means the following products coming under or, made by methods coming under the Patent Rights: decking materials, posts, beams, wall panels and such other products as may be included in this Agreement in the future by the mutual consent of the parties.

2. Grant of Patent Rights.

Grantor grants to Grantee the nonexclusive right to manufacture, use, sell and license the Patent Rights in the Territory and for the Fields of Use. During the term of this Agreement, Grantor may grant to any other third party exclusive Patent Rights in the Territory for one or all of the Fields of Use, and Grantee then shall have no further rights under this Agreement provided that Grantee either

(a) Accepts Sales Representation for such third party within the Territory on terms and conditions mutually agreeable to Grantor and such third party, it being understood that Grantor further agrees that he will use his best efforts to have such third party accept Grantee as its sales representative within the Territory, or

(b) Accepts compensation in money from such third party in an amount equal to all expenses actually paid by Grantee and directly related to S-3 Concrete exclusive of those expenses directly related to production of S-3 Concrete for use or sale by Grantee, plus 100% thereof as compensation for goodwill developed by Grantee.

3. Term.

The term of this Agreement is five years from the date first written above, and is renewable automatically for periods of one year unless written notice of cancellation is given by Grantor to Grantee at least 60 days prior to the end of the then existing term.

4. Price.

As consideration for the rights herein granted, Grantor shall receive 100,000 shares of the common stock of Grantee.

5. Representations of Grantor.

Grantor represents and warrants to Grantee that he has the sole right to grant the Patent Rights to the Grantee in the Territory and for the Fields of Use; that U. S. Patent No. 3,247,294 and its claims are valid and patentable; and that the practice of the grant of Patent Rights in the Territory and for the Fields of Use does not violate the patent rights of any other party.

6. Disclosure of Improvements and Filing and Prosecution of Patent Applications.

Grantor is working and intends to continue work in the Fields of Use. Such work is likely to result in Improvements. All Improvements made by Grantor shall be disclosed by Grantor to Grantee. With respect to each such Improvement, Grantor shall at his own discretion file and prosecute a U. S. patent application thereon at his own expense. In the event that Grantor decides not to file or decides to abandon further prosecution of a U. S. patent application on an Improvement, Grantor shall give timely notice to Grantee who may file or continue prosecution at its own expense.

7. Infringement of Patent Rights.

In the event of infringement of any patent coming under Patent Rights, Grantee shall have the right upon consultation with Grantor, but not the obligation, at its own expense, to bring and to maintain a suit and to retain all proceeds resulting from such suit. If Grantee elects not to bring such a suit, or having brought such a suit elects to abandon the same, Grantee shall give timely notice to Grantor who may initiate or continue such suit at his own expense and may retain all proceeds resulting from such suit.

8. Licensing to Grantor of Improvements Made by Grantee.

From time to time Grantee may make Improvements pertaining to the subject matter of this Agreement. All Improvements made by Grantee shall be promptly and fully disclosed by Grantee to Grantor. As to such Improvements, Grantee grants to Grantor an exclusive (except to the extent of Grantee's rights in such Improvements under this Agreement) royalty-free, transferable license, together with the right to grant sublicenses.

9. Continued Assistance by Grantor.

Grantor shall render to Grantee such reasonable assistance as Grantee requests, as Grantor's time and business commitments permit, including the execution of all documents reasonably requested by Grantee to secure to itself the rights granted hereunder, and Grantor shall also render to Grantee technical advice, consultation and assistance as reasonably requested by Grantee and as Grantor's time and business commitments permit. Grantee

shall reimburse Grantor for all expenses reasonably incurred by him pursuant to this paragraph at the request of Grantee and shall pay Grantor his customary consulting fee for his time spent as a consultant, including travel time, at the request of Grantee.

10. Assignability.

The grant of Patent Rights shall be binding upon and is personal to and nonassignable and nontransferable by Grantee by operation of law or otherwise, except only in the event of the transfer of all of its assets. Any assignment contrary to the terms hereof shall be void.

11. Notices.

All notices respecting this Agreement shall be in writing, sent by certified or registered mail, return receipt requested, or delivered in person to the following addresses until such time as another address is given in writing.

Notices to Grantee:

S-3 Concrete Products, Inc.
Attention: J. M. Leaver, President
P. O. Box 43
Lafayette, California 94549

Notices to Grantor:

Bahidj B. Sabouni
P. O. Box 727
Berkeley, California 94701

12. This Agreement shall be governed by and interpreted under the laws of the State of California. If suit is brought to enforce any term or condition of this Agreement, the prevailing party shall be entitled to a reasonable attorney's fee as determined by the court.

S-3 CONCRETE PRODUCTS, INC. (GRANTEE)

Attest: _____

By _____
Its _____

BAHIDJ B. SABOUNI

(GRANTOR)

Attest: _____

AGREEMENT FOR SALE OF PATENT RIGHTS

THIS AGREEMENT is entered into by and between BAHIDU S. SABOUNI of Berkeley, California 94701 (hereinafter referred to as "GRANTOR") and ASTRO-STONE, INCORPORATED, a California Corporation, (hereinafter referred to as "GRANTEE") having its principal place of business in Sonoma County, California, dated *May 4*, 1977, and effective June 1, 1977, upon the following terms, conditions, representations and warranties:

1. Definitions.

(a) Patent Rights means U. S. Patent No. 3,247,294; all Improvements as defined in paragraph 1 (c) hereof; and all U. S. patent applications and resulting U. S. patents on Improvements.

(b) The Territory means all of the continental United States, without exception.

(c) Improvements means any and all inventions, products, processes, apparatus and compositions of matter invented (either as sole or joint inventor) by GRANTOR or GRANTEE or as to which ownership or patent rights are acquired by GRANTOR or GRANTEE and which meet one or more of the following conditions:

(1) Such invention, product, process, apparatus or composition of matter would, if manufactured, used or sold within the United

States by a third party without a license,
infringe U.S. Patent No. 3,247,294;

(2) Such invention, product, process, apparatus, or composition of matter, although not within the scope of (i.e., would not infringe) said U. S. Patent No. 3,247,294, nevertheless is primarily useful for the practice of or utilization of the inventions of said patent, or as a substitute for products, processes, apparatus and/or compositions of matter described in said U. S. Patent No. 3,245,294.

(d) The Product means all products coming under or made by methods coming under Patent Rights.

(e) Selling Price means the price received for sales of the Product by GRANTEE after deduction of general excise and sales taxes, shipping costs, and allowances for returns and for defective merchandise, or the equivalent value of the Product used by GRANTEE.

(f) Fiscal Year means a year during the term of this Agreement the anniversary of which is the effective date hereof.

2. Grant of Patent Rights.

GRANTOR grants to GRANTEE, upon the terms and conditions set forth below, the exclusive right under Patent Rights and only in the Territory to manufacture, use and sell the inventions of Patent Rights only within the Fields described below:

(a) Fireplaces and fireplace appurtenances to include but not limited to the following:

- (1) Built-in Fireplaces;
- (2) Free-standing Fireplaces;
- (3) Fireplace Hearths and Surrounds;
- (4) Fireplace Floor and Wall Panels;
- (5) All-Fuel Chimneys; and,
- (6) All other Fireplace Accessories.

(b) Mobile Home Accessories.

3. Term.

The term of this Agreement is fifteen (15) fiscal years.

4. Installment Payments.

(a) As consideration for the rights herein granted, GRANTEE shall pay GRANTOR installment payments as follows:

(1) Payments of ten percent (10%) of GRANTEE's selling price of products coming under or made by methods coming under Patent Rights, the total annual payments being referred to hereinafter as "gross payments".

(2) Minimum payments shall be paid each fiscal year. Said minimum payments shall be paid quarterly on the fifteenth (15) day of the following quarter. Minimum payments shall be thirty thousand dollars (\$30,000) for the first year, commencing June 1, 1977 to May 31, 1978, and the sum of thirty-five thousand dollars (\$35,000) each fiscal year thereafter and shall be

credited against gross payments for the fiscal year to which they apply.

(b) If by June 1, 1979, or any fiscal year thereafter, the aggregate of the gross payments payable for that year shall be less than fifty percent (50%) of the minimum payments for that year, GRANTOR may terminate this Agreement upon thirty (30) days' written notice.

(c) GRANTEE shall make all payments to GRANTOR herein provided for when due without further demand or invoicing by GRANTOR. In no event shall GRANTOR be obligated to refund any payments made hereunder.

5. Disclosure of Improvements and Filing and Prosecution of Patent Applications.

GRANTOR is working and intends to continue work in the field of this Agreement. Such work is likely to result in Improvements. All Improvements made by GRANTOR shall be disclosed by GRANTOR to GRANTEE. With respect to each such Improvement, GRANTOR shall at his own discretion file and prosecute a U. S. patent application thereon at his own expense. In the event that GRANTOR decides not to file or decides to abandon further prosecution of a U. S. patent application on an Improvement, GRANTOR shall give timely notice to GRANTEE who may file or continue prosecution at its own expense.

6. Infringement of Patent Rights.

In the event of infringement of any patent coming under Patent Rights, GRANTEE shall have the right upon consultation with GRANTOR but not the obligation, at its own expense, to bring and to maintain a suit and to retain all proceeds resulting

from such suit. If GRANTEE elects not to bring such a suit, or having brought such a suit elects to abandon the same, GRANTEE shall give timely notice to GRANTOR who may but is not obligated to initiate or continue such a suit at his own expense and may retain all proceeds resulting from such suit.

7. Licensing to Grantor of Improvements Made by Grantee.

From time to time GRANTEE may make Improvements pertaining to the subject matter of this Agreement. All Improvements made by GRANTEE shall be promptly and fully disclosed by GRANTEE to GRANTOR. As to such Improvements, GRANTEE grants to GRANTOR an ~~exclusive, royalty-free, transferable license, together with the~~ ^{exclusive, royalty-free, transferable license, together with the} right to grant sublicenses.

8. Right to Sublicense.

GRANTOR further grants to GRANTEE the right to sublicense, the right to manufacture, use and sell the Product within the Territory and the Fields defined and specified in this Agreement for the balance of its term, subject to all of the terms and conditions contained in this Agreement, and on the following additional and supplemental terms and conditions:

(a) GRANTEE shall give written notice to GRANTOR of each and every sublicense and shall furnish to GRANTOR a copy thereof and any amendments thereto.

(b) GRANTEE shall pay, in addition to payments provided for in this Agreement, the following:

(1) All minimum payments received by GRANTEE from all sublicenses during any fiscal

year in excess of the minimum payment specified in Section 4(a)(2) of this Agreement for that year to be paid by GRANTEE to GRANTOR.

(2) All installment payments on sales of the Product by the sublicensee except that portion, if any, of installment payments measured by a percentage of the selling price of the Product in excess of ten percent (10%), which excess, GRANTEE is authorized to retain.

(3) Fifty percent (50%) of all other payments or consideration given by any sublicensee to GRANTEE under any sublicense given hereunder.

9. Security Agreement.

All payments provided for in this Agreement from GRANTEE to GRANTOR shall at all times, during the life of this Agreement or any extension thereof, have first priority over all other debts and obligations of GRANTEE, including but not limited to shareholders interests in GRANTEE corporation, to all of GRANTEE'S assets. Said payments shall be secured by a Security Agreement describing all property which is subject to this security and by an assignment of the lease of the premises where GRANTEE has its principal place of business. Said Security Agreement and a Financing Statement in connection therewith shall be executed by all parties along with this Agreement and Financing Statement shall be filed with the Secretary of State of California in accordance with the provisions of the California Commercial Code.

10. Continued Assistance by Grantor.

GRANTOR shall render to GRANTEE such reasonable assistance as GRANTEE requests and as GRANTOR'S time and business commitments permit, including the execution of all documents reasonably requested by GRANTEE to secure to itself the rights granted hereunder, and GRANTOR shall also render to GRANTEE technical advice, consultation and assistance as reasonably requested by GRANTEE and as GRANTOR'S time and business commitments permit. GRANTEE shall reimburse GRANTOR for all expenses incurred by him pursuant to this paragraph at the request of GRANTEE and shall pay GRANTOR his customary consulting fee for his time spent, including travel time, at the request of GRANTEE.

11. Accounting.

On the 15th day of January, April, July and October GRANTEE, without further demand from GRANTOR, shall render to GRANTOR a written statement of sales and transactions upon which installment payments are due during the preceding ^{Period} calendar quarter and shall accompany each such statement with monies due.

12. Books and Records.

GRANTEE shall maintain accurate and current books and records showing sales and transactions upon which installment payments are due and showing all costs and expenses paid by GRANTEE for S-3 Concrete and separately showing GRANTEE'S production costs and expenses. Such books and records shall be available at reasonable times for inspection by GRANTOR and/or his representatives.

13. Breach.

In addition to any and all other rights of termination, in the event of a breach of this Agreement by either party, the other party may give notice of such breach, specifying the nature of the same and of intention to terminate this Agreement unless such breach is cured within a period of thirty (30) days of receipt of such notices. If such breach is not cured within such period of thirty (30) days, then this Agreement shall terminate. Such termination shall not relieve either party of any obligations hereunder accrued prior to termination including, without limitation, the obligation of GRANTEE to make all installment payments otherwise payable hereunder and the minimum payments for the periods specified hereunder.

14. Attorneys' Fees - Waiver of Venue.

If suit be brought by either party in connection with this Agreement, the prevailing party shall be entitled to a reasonable attorneys' fee as determined by the Court. GRANTEE waives the right to move to change the venue of any such action initiated by GRANTOR. GRANTEE agrees to bring any action initiated by GRANTEE only in a court of competent jurisdiction in the location designated by GRANTOR. Prior to filing such action, GRANTEE shall give notice thereof to GRANTOR, who shall promptly notify GRANTEE of the designated venue.

15. Non-Waiver.

Any waiver by GRANTOR of any breach of provision of this Agreement by GRANTEE shall not constitute a waiver of any other breach of the same or any other provision hereof.

16. Assignability.

This Agreement is binding upon and shall inure to the benefit of GRANTOR, his successors and assigns and shall be binding upon and is personal to and non-assignable and non-transferable by GRANTEE by operation of law or otherwise.

17. Notices.

All notices respecting this Agreement shall be in writing, sent by certified or registered mail, return receipt requested, or delivered in person to the following addresses until such time as another address is given in writing.

NOTICES TO GRANTEE:

James M. Leaver
James M. Leaver, President
Leaver & Williams, Co. 44424

NOTICES TO GRANTOR:

Bahidj B. Sabouni
P.O. Box 727
Berkeley, CA 94701

18. Law Applicable.

This Agreement shall be governed by and interpreted under the laws of the State of California.

19. Severability.

If any provision of this Agreement is declared invalid by a Court of competent jurisdiction, such provision shall be stricken and all the remaining provisions shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this instrument the day and year first above-written.

GRANTOR:

Bahidj B. Sabouni
BAHIDJ B. SABOUNI

GRANTEE:

By

James M. Leaver
JAMES M. LEAVER, President
and Director

John Williams
JOHN GUILLIAMS, Director

Bahidj B. Sabouni
BAHIDJ B. SABOUNI, Director

SECURITY AGREEMENT

THIS SECURITY AGREEMENT is made on May 7, 1977, by and between SAHIDU B. SABOUNI, of the City of Berkeley, County of Alameda, State of California, hereinafter called "Secured Party" and ASTRO-STONE, INCORPORATED, a California corporation, having its principal place of business in Sonoma County, California, hereinafter called "Debtor".

The Debtor and Secured Party have entered into an agreement for the sale of patent rights for which Debtor is obligated to pay to Secured Party certain payments as hereinafter set forth. The patent rights relate to U. S. Patent No. 3,247,294; and all Improvements as set forth in paragraph 1(c) of that certain Agreement for Sale of Patent Rights entered into between the parties hereto on the date of this Agreement. The property secured by this Agreement covers all of Debtor's assets, including but not limited to all furniture, fixtures, machinery, equipment, inventory, accounts receivable, and bank accounts, whether currently owned or in the future to be acquired by Debtor of whatever kind or character.

It is mutually understood and agreed between the parties hereto that the items of property hereinabove set forth, located at 921 Piner Road, Santa Rosa, California, or at any future location(s) established by Debtor, are in the possession of Debtor and are subject to Secured Party's Security Agreement giving Secured Party first preferential right to said assets to satisfy Debtor's obligation as set forth in the Agreement for Sale of Patent Rights for a period of fifteen (15) years, commencing June 1, 1977 as follows:



(1) Payments of ten percent (10%) of GRANTEE'S selling price of Products coming under or made by methods coming under Patent Rights, the total annual payments being referred to hereinafter as "gross payments".

(2) Minimum payments shall be paid each fiscal year. Said minimum payments shall be paid quarterly on the fifteenth (15) day of the following quarter. Minimum payments shall be twenty-five thousand dollars (\$25,000) per fiscal year for the duration of this Agreement, commencing on the first fiscal year, June 1, 1977 to May 31, 1978, and the same amount of twenty-five thousand dollars (\$25,000) each fiscal year thereafter and shall be credited against gross payments for the fiscal year to which they apply.

(3) In the event that Debtor grants a sublicense to any third party as set forth in paragraph 8 of the Agreement for Sale of Patent Rights, Debtor shall also pay the following:

(a) All minimum payments received by Debtor from all sublicenses during any fiscal year in excess of the minimum payment specified in Section 4(a)(2), of this Agreement for that year to be paid by GRANTEE to GRANTOR.

(b) All installment payments on sales of the Product by the sublicensee except that portion, if any, of installment payments measured by a percentage of the selling price of the product in excess of ten percent (10%), which excess, GRANTEE is authorized to retain.

(c) Fifty percent (50%) of all other payments or consideration given by any sublicensee to GRANTEE under any sublicense given hereunder.

It is further mutually agreed that Debtor shall, at his sole cost and expense:

(1) To keep all of the items of tangible personal property located at 7111 ~~Frank Rd. Santa Ana~~ California, and not to remove them to any other location, except to replace the same with property of at least equal value;

(2) To maintain said items of property in good condition and repair, reasonable wear and tear excepted;

(3) That any such items as may be purchased by the Debtor, whether or not for replacement of lost or damaged items under (b), above, should be subjected to the terms of this instrument, as though set forth initially in this instrument;

(4) That any loss or damage of any of the items of property shall not release Debtor from payment of the sum provided herein, and that upon the occurrence

loss or damage, unreplaced by Debtor, amounting to fifty percent (50%) or more of said tangible personal property, the entire balance then due and interest due thereon may, at the option of the Secured Party, be declared to be due and payable in full;

(5) To keep said items of tangible personal property insured against loss or damage by fire with appropriate extended coverage endorsements upon said property, in an amount sufficient to protect Secured Party's interest therein;

(6) To permit Secured Party to procure such insurance in the event Debtor fails to do so, and to pay the cost thereof forthwith upon demand;

(7) To pay all costs, charges, expenses of Secured Party, including reasonable attorney's fees, incurred in the protection of or the securing of possession of said items of personal property.

It is mutually agreed that, should Debtor fail to pay or perform any agreement herein contained on Debtor's part to be performed, and to pay all such sums agreed to be paid by Debtor at the time and in the manner specified, or in the event the items of property herein, or any of them, become subject to any levy by any officer or public official, or should Debtor become insolvent, or should a Petition in Bankruptcy be filed by or against the Debtor, Secured Party may, at his election, without demand or notice, exercise the following remedies, to wit:

(1) Take immediate possession of the premises wherein said property is located, take possession of said property, and declare Debtor in default, and, in such event, all rights, title and equities of said Debtor in and to said items of property shall immediately cease and terminate, and Secured Party shall be released from any obligation to transfer any of said items of property to Debtor; and all sums of money heretofore paid and then due or unpaid from Debtor to Secured Party shall be considered to be compensation to Secured Party for the use, the wear and tear, and depreciation of said items of property by Debtor; and Debtor further agrees to pay Secured Party all payments then due and unpaid as a portion of said compensation.

It is further agreed that time and each of the terms, covenants, and conditions herein contained are of the essence of this Agreement; and acceptance by Secured Party of any payment after the same is due shall not constitute waiver of this or any other provision of this Agreement. This Agreement contains the entire agreement between the parties as respects this Security Agreement, and the same is binding upon the heirs, executors, administrators, and assigns of the parties hereto.

As further security for payment of the amount set forth hereinabove, the Debtor agrees to put up as security the entire

inventory located on said premises; and that upon Secured Party's entry into said premises, in the event of a default of Debtor herein, the title of said inventory shall rest in the Secured Party as part payment of the total amount due, the Debtor shall have no further interest therein; the Secured Party shall own the entire inventory located in said premises.

IN WITNESS WHEREOF, the parties hereto have executed this instrument the day and year first above written.

DEBTOR:

SECURED PARTY:

ASTRO-STONE, INCORPORATED

By *James M. Leaver*
JAMES M. LEAVER, President
and Director

Bahidj B. Sabouni
BAHIDJ B. SABOUNI

John R. Williams
JOHN GUILLIAMS, Director

Bahidj B. Sabouni
BAHIDJ B. SABOUNI, Director

To:

Bahidj B. Sabouni
P. O. Box 727
Berkeley, California 94701

You are hereby notified that the undersigned, James M. Leaver, who resides at 4145 Canyon Road in the City of Lafayette, County of Contra Costa, State of California, acting on behalf of himself as an individual and shareholder of S-3 Concrete Products, Inc. (successor to Astro-Stone, Inc.) and on behalf of S-3 Concrete Products, Inc. as its President, hereby repudiates and rescinds:

1. That certain "Agreement for Sale of Patent Rights" by and between Sabouni and Astro-Stone dated May 9, 1977.
2. That certain "Security Agreement" by and between Sabouni and Astro-Stone made on May 9, 1977.
3. That certain "Agreement for Sale of Patent Rights" between Sabouni and S-3 Concrete Products, Inc. made in August, 1976.
4. That certain "Partnership Agreement" made between Sabouni and James M. Leaver April 26, 1976 to the extent that certain rights, duties and obligations purportedly continue to exist after termination thereof.

The above agreements are rescinded under California Civil Code §1689 on the grounds of fraud, mistake, failure of consideration and illegality. The undersigned hereby offers to restore everything of value that he, Astro-Stone, Inc., and S-3 Concrete Products, Inc., have received from you, and to do everything necessary to restore to you all value received from you, as fully as if the above agreements had not been made. This offer of restoration is made on the condition that you restore and return to the undersigned everything of value received by you as consideration under the above agreements, more particularly consisting of cash royalty payments, consulting fees, and stock in S-3 Concrete Products, Inc.

Dated:

May 30, 1978

By

James M. Leaver
James M. Leaver, President
S-3 Concrete Products, Inc.



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I, BAHIDJ B. SABOUNI, am the petitioner herein and hereby declare the following of my own knowledge and if called to testify to the same could and would do so competently.

1. When I questioned the jury after the verdict, several members said that they did not really understand the technology at issue and they had to take the Magistrate's report as the Court's findings.

2. I was not permitted either at the Magistrate's hearings or during the trial to refute the facts alleged by my adversary. At both places and times my brief which I prepared upon my study of my adversary's report was not admitted. My brief analyzed my adversary's report of their tests and pointed test-by-test and step-by-step the testing malpractices and the connivances which riddled their methodology and acted to defeat the results. Professor Milos Polivka of the University of California in his testimony in Court

said that what plaintiffs had done in their tests was to "sabotage the patent." Professor Polivka is one of the world's most acknowledged concrete technologists.

My brief was not accepted by the Magistrate and I was not permitted to point to my adversary's testing malpractices. Thereafter the Magistrate adopted my adversary's report as his report. Then during trial I was not permitted to testify on the basis of my brief, point-by-point, to explain to the jury what specific misdeeds in each test were practiced and how each of these misdeeds and connivances adversely affected the final results. This I was not permitted to do at either the Magistrate's hearings or during my testimony in Court.

Then, twice during the trial the Judge told the jury (the first time was during the proceedings and the second time was toward the end during his instructions) that they must accept the Magistrate's report as this Court's findings.

When the Judge said this to the jury toward the end of the trial, I said to my attorney "I am down the tube."

I believe that I was denied due process notwithstanding that the Judge once said (while I was testifying and as he permitted me to complete a sentence when he overuled an objection by plaintiffs' counsel) "I am going to give this man his day in court." The Judge's statement was rhetorical and was like a stab in my chest because it was like they used to say in the South; "We'll give this nigger a fair trial and then hang him."

At another time, on the occasion of the installation of new carpet in the courtroom, the Trial Judge remarked to me "we're installing new carpets to improve your forensics. Indeed this is exactly what happened. I was denied my civil rights of due process. When I was testifying, I was so pressured by Judge Aguilar to conclude my testimony and by my attorney that I was unable to present my case. I was expected to finish in just

a few hours all my testimony on correct applications of the patent and the refutation of my adversary's tests, regardless of how much time plaintiffs' counsel earlier took in questioning me on various aspects of the patent. I was forced to talk only in general terms in "classifications" about what misdeeds were practiced instead of each specific error or contrivance in the testing procedures.

Then, while I was giving my testimony about the "broad classification" of plaintiffs' methodological errors, I decided that I would go to those big white sheets of paper on the easel, and I made some diagrams and detailed sketches which related to what I was telling the jury on the patent testing procedures. I said to my attorney to introduce my sketches as a part of my testimony. After the jury went inside to deliberate, I was dumbstruck when I saw my sketches (5 or 6 pages) outside in the courtroom and said to my attorney that they forgot to take these

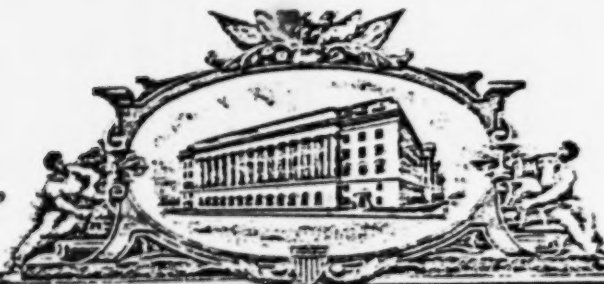
A-98

sketches; they were so important to an understanding of the difficult concrete technology and principles of atomic structure underlying the process at work in the '294 patent.

3. Because the Trial Judge virtually forced the jury to accept the Magistrate's report as gospel truth, all my testimony on the patent process was to no avail. The Court's mind was made up; the jury had to go along. I got a raw deal.

I hereby declare under penalty of perjury that the foregoing is true and correct and that this was executed on April 4, 1983, at San Francisco , California.

BADHIDJ B. SABOUNI
Petitioner



3,247,294

UNITED STATES OF AMERICA

TO ALL TO WHOM THESE PRESENTS SHALL COME:

Whereas

Bahidj B. Sabouni,

of

Berkeley,

California,

PRESENTED TO THE Commissioner of Patents A PETITION PRAYING FOR THE GRANT OF LETTERS PATENT FOR AN ALLEGED NEW AND USEFUL INVENTION THE TITLE AND A DESCRIPTION OF WHICH ARE CONTAINED IN THE SPECIFICATION OF WHICH A COPY IS HEREUNTO ANNEXED AND MADE A PART HEREOF, AND COMPLIED WITH THE VARIOUS REQUIREMENTS OF LAW IN SUCH CASES MADE AND PROVIDED, AND

Whereas

UPON DUE EXAMINATION MADE THE SAID CLAIMANT IS ADJUDGED TO BE JUSTLY ENTITLED TO A PATENT UNDER THE LAW.

NOW THEREFORE THESE Letters Patent ARE TO GRANT UNTO THE SAID

Bahidj B. Sabouni, his heirs

OR ASSIGNS

FOR THE TERM OF SEVENTEEN YEARS FROM THE DATE OF THIS GRANT

RIGHT TO EXCLUDE OTHERS FROM MAKING, USING OR SELLING THE SAID INVENTION THROUGHOUT THE UNITED STATES.

In testimony whereof, I have hereunto set my hand, and caused the seal of the Patent Office to be affixed, at the City of Washington this nineteenth day of April, in the year of our Lord, one thousand nine hundred and sixty-six, and of the Independence of the United States of America the one hundred and ninetieth.

Attest:

Edward W. Zellerbach, Jr.
Attesting Officer.

Edward J. Bremer
Commissioner of Patents

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April 19, 1966

E. B. SABOUNI

3,247,294

CONCRETE PRODUCTS AND METHODS FOR MAKING SAME

Filed Nov. 14, 1963

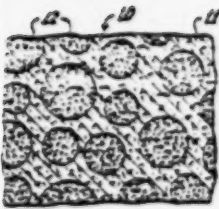


FIG. 1

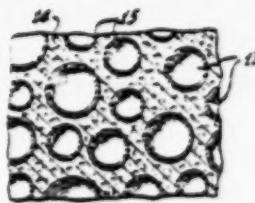


FIG. 2



FIG. 3

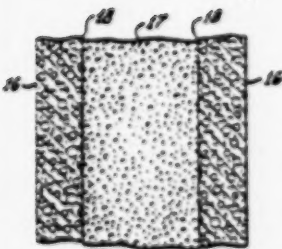


FIG. 4

INVENTOR

BY *E. B. Sabouni*

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3,247,294 CONCRETE PRODUCTS AND METHODS FOR MAKING SAME

Bahijj B. Sabouni, P.O. Box 727, Berkeley, Calif.
Filed Nov. 14, 1963, Ser. No. 325,205
12 Claims. (Cl. 264-42)

This application is a continuation-in-part of my application Serial Number 76,431 filed October 3, 1960, now abandoned.

This invention relates to concrete products and methods for making same. More particularly, the invention involves a new low density cellular concrete that possesses unique structural characteristics, including an exceptionally high compressive strength to weight ratio.

In brief, the present invention involves a concrete product formed from a cementitious mixture, including discrete pellets of a compressible, relatively non-hygroscopic and low density substance. The invention more specifically contemplates the use of compressive force to place the discrete pellets under resilient compression while the mixture is confined within a mold. Although the amount of compressive force used may vary, it is necessary to apply pressures in excess of 5 p.s.i., and preferably in the range of 10 p.s.i. and more to obtain the most advantageous and unexpected results. Moreover, the pressure once applied should be maintained against the cementitious mixture until after an initial set occurs, and the pressure should be held at a substantially uniform level.

It has been found that the combination of steps, including the application of compressive force to a cementitious mixture containing discrete pellets of a compressible substance such as polystyrene, may be used to create a prestressing of cementitious binder material. Although a compressive force of less than five pounds per square inch may be applied by conventional vacuum methods to extract water from the mixture to increase the strength of a resulting product, the small amount of internal prestressing which might occur is of little consequence.

This invention especially contemplates the preparation of cementitious mixtures comprising hydraulic cement, water, a fibrous water-absorbing filler such as asbestos, and discrete pellets of expanded polystyrene. In preparation of such a mixture, the water is initially added to the cement in an amount sufficient to form a relatively harsh, dry preparation. After thoroughly mixing, suitable amounts of fibrous filler and discrete pellets of polystyrene may be added to the preparation. The mixture is then placed in a water-porous mold and immediately subjected to an application of compressive force, preferably by means of vacuum in a closed system. The applied compressive force, which is preferably in the range of 10 p.s.i. or more, places the discrete pellets of polystyrene under resilient compression while removing excess water and densifying the fibrous filler. Importantly, since the resilient compaction of the polystyrene pellets results in an internal prestressing of the cementitious binder material, the compressive force must be maintained until the cementitious mixture takes its initial set. If otherwise, lines of weakness may develop in the final product.

The use of polystyrene and other substances which are also heat-fusible are of particular importance in forming a cellular concrete that is substantially moisture-proof. It has been found that a concrete product made with polystyrene pellets in the manner above described may subsequently be heated to temperatures which cause the fusible pellets to melt and disperse by capillary action into the matrix of cement and fibrous filler. This result can be produced during the curing of products at elevated temperatures, such as are used in autoclaving.

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Concrete products having heat-fusible pellets as part of their constituency may also be subjected to a treatment of flash-heating one or more surfaces. When a flame or other "flash heat" is applied to the surface of such products the exposed pellets that are embedded in the surface are melted, leaving substantially spherical-shaped voids. The resulting concrete surface is extremely well adapted for grouting and lamination bonding processes. Moreover, the pellet-defining voids impart to the concrete a sound attenuating characteristic not possessed by regular smooth surfaces. It will also be noted that the dimpled surface appearance produced is extremely attractive, especially when brush-painted and then rolled to produce contrasting colors between the exposed concrete matrix and its spherical voids.

Useful high strength building components and panels can be made with products contemplated by this invention by foaming polyurethane or polystyrene in contact with and between two concrete "boards," prepared by the methods referred to above. The foamed material forms an excellent mechanical bond with a dimpled surface as well as with the cemented polystyrene pellets, and provides an intermediate layer of insulation. Structures formed by this method have proved to be strong and rigid, while also providing the necessary thermal and sound insulation that is required for use as a wall panel.

Therefore, it is one object of this invention to provide a concrete product that is formed from a cementitious mixture including discrete pellets of a compressible, relatively non-hygroscopic and low-density substance, said mixture being subjected to compressive forces that induce an internal prestressing of a cementitious matrix.

A second object is to provide a concrete product formed from a cementitious mixture including relatively non-hygroscopic and heat-fusible pellets, wherein said product has been heated during or after curing to render the cellular concrete substantially moisture-proof.

It is another object of the invention to provide a concrete product formed from a cementitious mixture including heat-fusible pellets, wherein a surface or surfaces of said product have been flash-heated to melt the pellets which are exposed upon the surface to create voids within the surface.

A further object is to provide a concrete product having an exceptionally high compressive strength/weight ratio and being impregnated with non-hygroscopic material such as polystyrene.

Other objects of this invention will be apparent to persons skilled in the art of concrete products and structures, especially in view of the accompanying drawings and the following description.

In the drawings forming a part of this application and in which like parts are identified by like reference numerals throughout the same:

FIG. 1 is a magnified section, taken through a concrete product formed in a manner contemplated by this invention;

FIG. 2 is a magnified section taken through the concrete block of FIG. 1 after heating to a temperature of pellet fusion;

FIG. 3 is a magnified section of a product such as shown in FIG. 1, said product having been flash-heated over a portion of its upper surface; and

FIG. 4 is a transverse section of a panel structure formed with concrete products of the kind contemplated by this invention.

One method of this invention involves the preparation of a cementitious mixture comprising binding material, fibrous filler, and discrete pellets of a compressible, relatively non-hygroscopic and low-density substance. For example, a wet slurry mixture of water, hydraulic cement,

A-102

and asbestos may be made, and to this is added a quantity of polystyrene pellets. The pellets are to be thoroughly mixed into the slurry, insuring that each pellet is coated by the cement. This prepared mixture is then placed into a water porous mold and subjected to a compressive force, squeezing as much water from the mixture as is feasible without causing a collapse of the pellets.

It may be noted that the application of the compressive force will produce a volumetric reduction that may be attributed largely to the extrusion of excess water and the physical compaction of the fibrous filler. But also, and more importantly, polystyrene pellets, being of a cellular and compressible nature, will be reduced to a smaller size, thereby contributing to the resulting volumetric reduction. Each polystyrene pellet, while being compressed, exerts an internal biasing force upon the cementitious mixture surrounding it. The cumulative effect of these pellets is such as to produce an internal prestressing of the concrete, densifying and connecting the cementitious binder material. After the binder takes a set the molded concrete product may be removed from its mold; and, in accordance with conventional practices, the resulting concrete product may be cured.

The application of compressive force should be maintained with substantial uniformity during the time that the cementitious mixture is setting up. Removing the pressure prior to initial setting will produce lines of weakness in the product, and even a substantial variation in pressure is apt to be harmful.

Although expanded polystyrene pellets are available in various sizes, the best results have been obtained using a range of sizes. Moreover, the use of large diameter pellets is extremely important to the manufacture of lightweight products since the bulk density of the larger pellets is less than smaller pellets. In any event, it is believed that the average particle size of the pellets employed should be greater than $\frac{1}{8}$ inch diameter. Substances such as Microballoons, which are at most 500 microns, are much too small for beneficial use as the sole ingredient of discrete pellets.

In FIG. 1 of the drawings there is shown a representative product 10 formed by the above described process. The concrete structure comprises a matrix 11 including hardened cement with fibrous strands of asbestos imbedded therein. Polystyrene pellets 12 also comprise a major part of the concrete, but since the pellets are structurally weak, the strength of the concrete is dependent upon its matrix. Consequently, the concrete structure of FIG. 1 may be considered basically a prestressed matrix with pellet-occupying voids.

The polystyrene pellets, as referred to above, may be produced from granular type products which are commercially available and manufactured by United Cork Companies of New Jersey, as well as other companies. The commercially sold granulated product is treated with steam in a steam expander at a temperature of about 200° F. As a result of this treatment the granular polystyrene is expanded from an average size of approximately $\frac{1}{8}$ inch diameter and having a 40 lbs./cu. ft. density, to an average size of $\frac{1}{4}$ to $\frac{1}{2}$ inch diameter with a bulk density of wide range but being approximately 2 lbs./cu. ft., and lighter. In the expanded condition the polystyrene pellets possess a relatively smooth outer substantially spherical surface with an inner cellular structure of membranes. Because of their relatively smooth outer surfaces these pellets have a comparatively low coefficient of friction, which allows them to be more easily dispersed in a wet slurry mixture of a rather harsh consistency. The further fact that the expanded granules of polystyrene are substantially spherical in shape is a primary reason for their ability to withstand considerable hydraulic pressures without collapsing. And in this respect it has been found that most polystyrene pellets are capable of withstanding hydraulic pressures in excess of 25 p.s.i. Thus, it will be

realized that the polystyrene pellets are especially well suited for use in making the concrete products contemplated by this invention.

Within the broader scope of this invention it is to be understood that various types of hydraulic cements may be utilized. However, a preferred form of cementitious material is prepared by using Portland cement.

Similarly, while an asbestos fiber has been used with great satisfaction, other types of filler material including other kinds of mineral or organic fiber (or granular material such as silica flour) might also be employed.

It is also believed that discrete pellets of lightweight substances other than polystyrene might be utilized. Especially in view of the increasing number of new plastic substances that are becoming available, it is further contemplated that some of these might be used with equal or greater advantage than polystyrene for producing concrete products having high compressive strength/weight ratios. Therefore, it is to be realized that the broader aspect of the invention teaches the use of lightweight, hollow or cellular pellets, said pellets being substantially non-hygroscopic and resilient.

In carrying out the manufacturing process outlined above I have employed a mold for compacting the mixture under a compressive force. The mere inclusion of discrete lightweight and compressible pellets will not produce a concrete product having a high strength to weight ratio. For this reason I have provided a perforated box having a loose fitting and removable lid. The box is lined with a woven cloth, such as muslin or burlap which will have a weave size to permit water to flow freely from the mold without permitting an extrusion of the cement or solid materials. After a cementitious mixture is disposed in the box its lid is placed in position and a compressive force is applied.

The compressive forces used in forming products in accordance with this invention are preferably applied either wholly or in part by means of vacuum in a closed system to prevent the introduction or an infusion of air. For this purpose, I have constructed a sealed mold comprising a vacuum table having a perforated support surface covered with a woven cloth, upstanding side walls and a movable upper wall. The cementitious mixture is initially placed in the mold while the upper wall is re-
45 moved. Then, the upper wall is sealed peripherally to the side walls by means of a flexible diaphragm which allows the upper wall to move downwardly against the cementitious mixture confined within the side walls. The use of vacuum with a closed mold of this kind not only
50 places the mixture under compression but removes any air particles that may have become entrained in preparing the mixture. Moreover, since the mold is closed, there can be no infusion of air as would result by using ordinary vacuum tables and conventional techniques.

It will be evident that a vacuum mold of the type described may be used either by itself or together with additional compression means, as might be provided by placing a weight upon the movable upper wall. When used by itself, the vacuum pressure should be sufficient to apply a force of at least 3 p.s.i. With proper equipment, a compressive force may be developed which approaches
60 existing air pressure.

After the concrete product has been formed it may be cured in many of the conventional ways. Where the concrete has been made from a mixture including Portland cement it may be allowed to set at room temperature for a customary 28 day period, or such time as considered appropriate under the circumstances. Of course, also, the setting time of the concrete may be accelerated by
70 subjecting it to a humidified atmosphere and at a somewhat elevated temperature. These and other conventional curing practices may be utilized to obtain products having superior strength characteristics.

This invention also contemplates that those concrete products formed with pellets of polystyrene, or other heat

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fusible substances, may be further processed by heat treating to produce a product as shown in FIG. 2. This product has not only a high strength/weight ratio but is also less moisture absorbent than other light weight concretes. The product of FIG. 1, for example, may be heated to a sufficiently high temperature to melt the polystyrene pellets, causing said pellets to fuse as a molten substance. As a consequence, the melted pellets coat the inner surfaces of the matrix, leaving what may now be termed pellet-defining voids 13. Moreover, while the pellets are in a molten state they diffuse themselves into the fibrous filler and matrix, apparently as the result of capillary action. Thus, when the product is subsequently cooled, the polystyrene solidifies in its diffused positions, rendering the product substantially non-hygroscopic and moisture proof. The resulting product then comprises a polystyrene impregnated matrix 14 and shell-like inclusions 15 of polystyrene which coat the internal cement matrix and define the voids 13.

By way of further illustrating the processes involved in manufacturing the above described concrete products, and in order to show strength characteristics of certain products that have been made, the following recipes for the preparation and formulation of certain products are given as examples. It is to be understood that the examples hereinafter set forth are intended merely as being illustrative and not as limitations to the scope of the invention.

Example I

Ingredients	Weight, Grams	Volume Ratio
Portland Cement (Permanent Type III)	13,000	1
Asbestos fibers (Canadian Johns-Manville Grade 7500, 6.0-9.1-9-15.0 minimum test)	1,000	1
Expanded Polystyrene (Expanded to approximately 1.5 lb. per cu. ft. lower fill bulk density)	500	2
Water	11,500	1.1

The asbestos fibers were fluffed for 3 minutes by a motor driven blade to produce maximum separation of the fibers. The cement and asbestos were then combined and further beaten for 5 minutes until a uniform distribution was obtained. These two ingredients were then combined with water in a concrete mixer forming a uniform slurry. The expanded polystyrene was then added and mixed until evenly dispersed.

The resulting mix was poured from the mixer and its density was determined by weighing a measured volume. At this stage the density of the wet mix was 56.0 lb. per cu. foot.

The mix was then transferred to a one cubic foot container, the bottom of which comprised a vacuum plate covered with muslin through which water could be extracted. The top of the mold was then sealed with a flexible diaphragm and vacuum at approximately 27 inches of mercury was applied for one hour by means of a hose connection to the vacuum plate.

Water removed grams..... 4780
Density after vacuum lb. per cu. ft..... 52.0

After 18 hours the specimen was removed from the mold, saturated with water, wrapped and sealed in polyethylene and baked at 180° F. for 72 hours to accelerate curing. While this curing method is not recommended as a suitable general technique, an early indication of physical properties was needed.

At the conclusion of the first baking period the specimen was unwrapped and cut into 2 x 2 x 8 inch bars for strength testing. These bars were oven dried at 225° F. for 24 hours and then tested for flexure strength and compressive strength in accordance with ASTM specifications designation C-116 for compressive and designation C-78 for flexure.

Oven dry density lb. per cu. ft..... 40.6
Flexure strength lb. per sq. in..... 215
Compressive strength lb. per sq. in..... 913

At the time of water removal with vacuum a portion of the mix was placed in a separate container and not subjected to vacuum. This portion was allowed to cure for two weeks in a moist condition at room temperature. At the end of that time it was cut into 2 x 2 x 8 inch test bars and oven dried for testing in accordance with ASTM designations C-78 and C-116.

..... lb. per cu. ft.
Oven dry density 37.0
Flexure strength 228
Compressive strength 653

Example II

The specimen of this example differs from Example I in that a different ratio of ingredients including a superior grade of asbestos was used and a portion of the mix was subjected to a combination of vacuum and pressure.

Ingredients	Weight, Grams	Volume Ratio
Portland cement (Permanent Type III)	13,100	1
Asbestos fibers (Canadian Johns-Manville Grade 7500)	2,500	3
Expanded Polystyrene	12,500	3
Water	1,800	1.7

The ingredients were combined as in Example I. After mixing the density of the mix was 47 lb. per cu. ft. Two thirds of the mix was placed in the vacuum mold described in Example I. Water was extracted for one hour at a vacuum of approximately 27 inches of mercury. After 12 hours the mold was opened, the specimen was wrapped in polyethylene and baked at 180° F. for 72 hours. The remaining 1/3 of the mix was placed in a pressure chamber in which one side of the mass of cement was subjected to an air pressure of 25 p.s.i. gage by means of a rubber diaphragm and in which the other side was subjected to a vacuum of approximately 27 inches of mercury through a porous grid covered with muslin. Water was extracted for one hour. After 12 hours the pressure was released; the specimen was removed from the mold, wrapped in polyethylene and baked for 72 hours at 180° F.

Both specimens were then cut into 2 x 2 x 8 inch bars and oven dried at 225° F. for 24 hours. Strength tests in accordance with ASTM designations C-78 and C-116 were then conducted.

	Specimen subjected to vacuum	Specimen subjected to vacuum and pressure
Oven dry density, lb. per cu. ft.	36.1	31.1
Compressive strength, p.s.i.	265	265
Flexure strength, p.s.i.	170	240

Example III

In this example the ratio of ingredients was adjusted and produced a concrete with high compressive strength while retaining the flexure strength of the previous examples.

Ingredients	Weight, Grams	Volume Ratio
Portland cement (Permanent Type III)	17,300	1.0
Possidon (AFRC Co.)	1,728	0.2
Asbestos fibers (Canadian Johns-Manville Type 7500)	247	0.08
Expanded polystyrene	800	2.2
Water	11,700	0.85

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The ingredients were combined in the same manner as in Example I. After mixing, the density of the mix was 61 lb. per cu. ft.

The mix was placed in a pressure chamber in which pressure and vacuum were simultaneously applied as described in Example II. After 12 hours the pressure was released and the specimen was removed from the mold, wrapped in polyethylene and baked for 72 hours at 180° F.

Test specimens 2 x 2 x 8 inches were cut, oven dried and tested as described in Example II with the following results:

Oven dry density	lb. per cu. ft.	53.3
Compressive strength	p.s.i.	1630
Flexure strength	p.s.i.	249

An alternate manner of processing a concrete product such as shown in FIG. 1 is to apply a flash-heat over a portion, or all of its exterior surface. FIG. 3 illustrates the effect produced by flash-heating a portion of an exposed surface; and similar to the product of FIG. 2, the exposed pellets which are embedded in the surface, are melted, leaving voids which create a dimpled surface. This dimpled surface is excellent for grouting and lamination bonding purposes; it possesses a high degree of sound attenuation; and its attractive appearance provides unusual texture that should lend itself to interior and exterior decorations. Moreover, it has been found that a most unusual and attractive surface appearance can be created by first painting the surface, insuring that both the matrix and pellet defining voids are covered. Then, after the surface has dried, it is paint-rolled with a contrasting color. Since the roller will not extend into the voids, it will only cover the matrix with paint, thereby producing an extraordinary contrast of colors upon a three dimensional surface.

FIG. 4 of the drawings illustrates another product of this invention, one which may be used for building panels and walls. As shown, two concrete blocks 16, formed with polystyrene pellets as in making the product of FIG. 1, are joined together by an intermediate layer 17 of polyurethane. This product is made by placing the two blocks 16 in a mold, and in spaced relation to one another. A foaming material such as polyurethane is then deposited into the mold between the blocks; and the mold is immediately sealed and clamped. The pressures resulting from the foaming action cause the fluid foaming material to be driven into the contacted surfaces of blocks 16. As a consequence, the interfaces 18 are united in a strong mechanical bond. It will be understood that this product combines the structural strength of concrete with the excellent insulating qualities of the polyurethane and polystyrene. Moreover it is contemplated that an effective fire wall can be made by selective proportioning of the laminated thicknesses. For example, a 1 inch intermediate layer of polyurethane and 1/4 inch board thicknesses of concrete should prove to be useful. However, it is anticipated that the board thicknesses may be substantially greater, and even of unequal widths.

It is also contemplated that a useful laminated product can be made by adhesively joining layers of concrete with an intermediate layer of a material such as fiber glass, which possesses a high thermal insulating property. This product would, of course, also provide the necessary requirements of fire panel boards and the like, being of great strength as well as possessing inherent thermal and sound insulating properties.

While certain preferred embodiments of my invention have been illustrated and described, it will be realized that various changes and modifications can be made without departing from the spirit of this invention or the scope of the attached claims, and each of such changes or modifications is contemplated.

What I claim and desire to secure by Letters Patent is:

1. A method for making a concrete structural product

comprising the steps: preparing a cementitious mixture including water, binding material, and discrete pellets of a resiliently compressible, relatively non-hygroscopic and low density substance; said pellets having an average uncompressed size that is greater than 1/16 inch in diameter; forming a product having a pre-stressed matrix with pellet occupying voids by applying a compressive force to said mixture and compressing said pellets in the cementitious mixture prior to hydraulic setting of the cementitious mixture, and maintaining said force until said mixture achieves a hydraulic set sufficient to maintain itself in a unitary state.

2. A method for forming a cementitious unitary mass comprising the steps of

(a) providing a cementitious slurry of water, binding material, and discrete, resiliently compressible, relatively non-hygroscopic low density pellets having an average uncompressed particle size greater than 1/16 inch in diameter;

(b) casting said slurry into a mold;

(c) prior to any hydraulic set of the thus cast slurry, applying a compressive force to the unset slurry in said mold to compress said pellets; and

(d) maintaining said compressive force on the thus cast slurry at least until said slurry has achieved an initial hydraulic set sufficient to maintain the mass of said slurry in a unitary state.

3. The method defined in claim 2 comprising the step of mixing a fibrous, water absorbing filler to said slurry before it is cast.

4. The method defined in claim 3 wherein said pellets are made of polystyrene.

5. The method defined in claim 2 wherein said pellets are made from a heat-fusible substance and wherein heat is applied to said unitary cementitious mass to at least melt the pellets embedded in the surface thereof, and allowing the thus melted pellets to be distributed into the cementitious mass.

6. The method defined in claim 2 wherein said pellets are made from a heat-fusible substance and wherein heat is applied to the thus formed unitary cementitious mass to (a) further cure said mass and (b) to melt said pellets, the melting of said pellets resulting in the distribution thereof into said cementitious mass.

7. The method defined in claim 2 comprising the step of removing excess water from said slurry in a water porous mold while said slurry is being subjected to said compressive force.

8. The method defined in claim 7 wherein said excess water is removed by subjecting said slurry to a vacuum which provides for a part of said compressive force.

9. A method of forming a cellular cementitious unitary mass comprising the steps of

(a) providing a cementitious slurry consisting essentially of water, binding material, fibrous, water absorbing filler and discrete, resiliently compressible, relatively non-hygroscopic, low density pellets having an average uncompressed particle size greater than 1/16 inch in diameter;

(b) casting said slurry into a mold;

(c) prior to any hydraulic set of the thus cast slurry, applying a compressive force to the unset slurry to compress said pellets; and

(d) maintaining said compressive force on the slurry at least until said slurry achieves an initial hydraulic set sufficient to maintain the mass of said slurry in a unitary state.

10. The method defined in claim 9 wherein said pellets are made from polystyrene.

11. The method defined in claim 9 comprising the step of flash heating the surface of the hydraulically set, unitary cementitious mass to melt said pellets embedded in the surface thereof and thereby provide pellet defining voids.

A-105

12. The method defined in claim 9 wherein said compressive force is at least 10 p.s.i.

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10	ROBERT F. WHITE, Primary Examiner.
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ALEXANDER H. BRODMERKEL, Examiner.

82-1736

Office-Supreme Court, U.S.
FILED
APR 4 1983
ALEXANDER L. STEVAS,
CLERK

No.

IN THE SUPREME COURT OF THE UNITED STATES

October Term, 1982

BAHIDJ B. SABOUNI, an individual,
SABOUNI AND ASSOCIATES,

Petitioner,

v.

JAMES M. LEAVER, et al.,

Respondents.

APPENDIX TO

PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

DAVID B. BIRENBAUM
BIRENBAUM, LUSCUTOFF & LENDORMY
Opera Plaza, Suite 2030
601 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 929-1000
Attorneys for Petitioner

APPENDIX CONTENTS

COMPRISED OF OPINIONS AND ORDERS OF THE LOWER COURTS IN THIS MATTER

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NOTE: For convenience these opinions have also been set forth at the appendix following petitioner's Petition for Certiorari. References in the Petition are to the page numbers in the appendix attached to the petition.

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

JAMES M. LEAVER, an indivi-)	
dual, and S-3 CONCRETE)	
PRODUCTS, INC., a)	
California corporation,)	
)	NO. 81-4128
Appellees,)	
)	DC No. CV-78-1185
vs.)	
)	
BAHIDJ B. SABOUNI, an in-)	<u>MEMORANDUM</u>
dividual, and SABOUNI)	
AND ASSOCIATES,)	
)	
Appellants.)	

Appeal from the United States District Court
For the Northern District of California
Robert P. Aguilar, District Judge, Presiding
Argued and submitted April 12, 1982

BEFORE: GOODWIN, FLETCHER and POOLE, Circuit Judge:

The business partner of a patent licensor
sued the licensor to have the patent declared
invalid, to rescind contracts the parties had
entered, to have the licensor found guilty of
fraud and to collect damages. Although it did not
find fraud, the jury otherwise held for the

plaintiff and awarded attorney's fees under one of the rescinded contracts. The defendant (Sabouni) appeals.

Sabouni owned Patent 3,247,294 (Patent '294) which covers a process for making concrete and concrete products. He licensed the patent to Astro-Stone and formed a separate partnership (S-3 Concrete Company) with Leaver to exploit the patent further.

Through his dealings with Sabouni, Leaver became aware that Astro-Stone was in financial difficulty. Leaver lent Astro-Stone substantial sums of money. When Astro-Stone continued to flounder, Leaver merged Astro-Stone into S-3 Concrete Products, of which he was president, and, as part of the take over, obtained a license of the '294 Patent from Sabouni.

Problems beset S-3 Concrete Products, and Leaver became convinced that they were traceable to the inoperability of Patent '294. As a result, he sued Sabouni and sought (1) to have the patent

declared invalid, (2) to have Sabouni's licensing agreements with Astro-Stone and S-3 and the partnership agreement between Leaver and Sabouni rescinded, (3) to have Sabouni found in breach of these contracts, (4) to have Sabouni found guilty of fraud, and (5) to have the agreements with Sabouni declared void.

Upon a motion by Leaver, the court appointed a magistrate as a special master to determine whether the patent was operable. The magistrate selected a professional testing expert who conducted tests proposed by each party. Although the results of the two tests were contradictory, the magistrate concluded that the plaintiff's test was the more reliable and that it proved Patent '294 inoperable. Sabouni's motions for appeal and for reconsideration on the ground that the plaintiff's tests did not perform the necessary step of water removal were denied.

After a lengthy trial, the jury, making a special finding of inoperability, found the patent

invalid, rescinded the agreements of sale of patent rights, and ordered the restitution of \$62,083. It also held the partnership agreement to have been breached and awarded \$36,000 damages. The agreements for sale of patent rights each provided for severable attorney's fees; the court awarded attorney's fees to Leaver of \$35,000 and, subsequently, of \$6,500 for work done in answer to Sabouni's post-trial motions.

Sabouni contends that rescission and restitution were inconsistent with the jury's breach of contract finding, and that he was entitled to retain his royalty payments. He also argues that the special master's report was incorrectly admitted and that the jury instruction concerning the report created reversible error.

1. Contract Remedies

Leaver sued on several separate agreements: the agreement of sale of patent rights between Sabouni and Astro-Stone with an accompanying security agreement, the agreement of sale of

patent rights between Sabouni and S-3, and the partnership agreement between Sabouni and Leaver.

The jury held only the agreements of sale of patent rights to be rescinded while finding the partnership agreement to be breached with resultant damages of \$36,000. The jury did not, as Sabouni contends, award damages for breach of the same contract it had already found to be rescinded.

Sabouni also contends that the \$36,000 should be returned to him because it represents his consulting fees under separate consulting agreements. However, the consulting services performed by Sabouni were worth little or nothing except insofar as they were rendered as part of the overall partnership agreement. This partnership agreement was formed for the primary purpose of promoting Patent '294, and the jury found that the failure by Sabouni to deliver a valid patent constituted a breach of the agreement. Therefore, Leaver was properly awarded

his expectancy damages for breach of the partnership contract, which the jury measured by the amount Leaver had expended to promote the invalid patent.

2. Patent Royalties

The jury ordered the agreements for sale of patent rights rescinded, and ordered the restitution of \$62,083 paid by Leaver to Sabouni. Sabouni now urges that these payments be characterized as royalty payments that are not subject to restitution upon contractual rescission, citing St. Regis Paper Co. v. Royal Industries, 525 F.2d 309, 312-324 (9th Cir.) cert. denied, 434 U.S. 996 (1977). Sabouni's argument is unconvincing. The jury had ample evidence from which it could properly find that the \$62,083 paid by Leaver was consideration for an installment sale of patent license rights by Sabouni and not royalties for the use of Sabouni's patent. Restitution of such payments on the contract of sale was a proper remedy in conjunction with the

rescission of the contract ordered by the jury.

3. Special Master's Report

Sabouni asserts that the trial court erred when it admitted the special master's report in evidence because the master had exceeded the scope of his authority and because the tests on which the report was based had omitted a critical step in the patent process. However, Sabouni's presentation to the jury of the circumstances surrounding the testing was not hampered. The testing expert had been subject to Sabouni's cross-examination. Thus, whether or not the special master's report may have exceeded the scope of the assignment, the evidence it contained was not prejudicial.

4. Jury Instructions

Sabouni claims the jury instructions were confusing because they implied that the jury was bound by the special master's report. The instructions, however, clearly stated that the jury was free to give the report whatever weight

it deemed appropriate.

5. Invalidity of Patent '294

Sabouni also challenges the finding of invalidity of Patent '294. Both Astro-Stone and S-3 experienced great difficulty with the concrete process. The court-appointed expert's tests were consistent with other evidence showing the inoperability of the process. Under these circumstances, a reasonable trier of fact could have found Patent '294 invalid.

6. Attorney's Fees

Sabouni also argues that the jury awarded attorney's fees on the basis of an attorney's fees clause in the agreements it held were rescinded. Ordinarily, a party may not claim the benefits of a rescinded contract. 55 Cal.Jur.3d, Restitution, section 99. We therefore remand for a statement of reasons for the award of attorney's fees.

The trial court's findings of patent invalidity, rescission and restitution under the patent rights contracts and damages resulting from

the breach of the partnership agreement are affirmed.

Affirmed in part; remanded for further proceedings on attorney fees.

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

JAMES M. LEAVER, an indivi-)
dual, and S-3 CONCRETE)
PRODUCTS, INC., a)
California corporation,)

Appellees,)

vs.)

BAHIDJ B. SABOUNI, an in-)
dividual, and SABOUNI)
AND ASSOCIATES,)

Appellants.)

NO. 81-4128

DC 78-1185 RPA

ORDER

Before: GOODWIN, FLETCHER and POOLE, Circuit Judges

Appellees' petition for rehearing filed
December 9, 1982, and appellants' petition for
rehearing filed December 15, 1982, are denied.

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

JAMES M. LEAVER, an individual, and S-3 CONCRETE PRODUCTS, INC., a California corporation,

Plaintiffs,

vs.

BAHIDJ B. SABOUNI, an individual, and SABOUNI AND ASSOCIATES,

Defendants.

Civil Action
No. C-78-1185 RPA

JUDGMENT

BAHIDJ B. SABOUNI, an individual, and SABOUNI AND ASSOCIATES,

Counterclaimants,

vs.

JAMES M. LEAVER, an individual, and S-3 CONCRETE PRODUCTS, INC., a California corporation,

Counterdefendants.

This action came on for trial before this Court and a jury, the Honorable Robert P. Aguilar,

presiding, and the issues having been duly tried and the jury having returned its verdict, said verdict being the true and unanimous verdict of the jury in the above-captioned case, and the Court having determined there being no reason that judgment should not be entered in accordance with the jury verdicts:

IT IS HEREBY ORDERED AND ADJUDGED:

1. That the plaintiffs JAMES M. LEAVER and S-3 CONCRETE PRODUCTS, INC., recover of the defendants BAHIDJ B. SABOUNI and SABOUNI AND ASSOCIATES the sum of Ninety-Eight Thousand and Eighty-Three Dollars and no/100 (\$98,083.00) with interest thereon at the rate of seven percent (7%) as provided by law from the date of this judgment until paid.

2. That U.S. Letters Patent 3,247,294 issued to BAHIDJ B. SABOUNI is found to be invalid because said Letters Patent is both:

(a) Inoperable

(b) Obvious

3. That the fraud cause of action of plaintiffs JAMES M. LEAVER and S-3 CONCETE PRODUCTS, INC., against BAHIDJ B. SABOUNI and SABOUNI AND ASSOCIATES is hereby dismissed on the merits.

4. That all the counterclaims of the counterclaimants BAHIDJ B. SABOUNI and SABOUNI AND ASSOCIATES against counterdefendants JAMES M. LEAVER and S-3 CONCRETE PRODUCTS, INC., are hereby dismissed on the merits.

5. The plaintiffs are entitled to taxable costs.

6. The Court, upon subsequent motion of plaintiffs, will determine such reasonable attorney's fees that shall be awarded to plaintiffs under the agreements providing for the same.

Date: December 11, 1980

ROBERT P. AGUILAR

UNITED STATES DISTRICT JUDGE

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

JAMES M. LEAVER, an indivi-)	
dual, and S-3 CONCRETE)	
PRODUCTS, INC., a)	
California corporation,)	C-78-1185 RPA
)	
Plaintiffs and)	
Counterdefendants,)	
)	
vs.)	ORDER
)	
BAHIDJ B. SABOUNI, an in-)	
dividual, and SABOUNI)	
AND ASSOCIATES,)	
)	
Defendants and)	
Counterclaimants,)	
)	

The following motions came on for hearing
before this Court on February 19, 1981:

1. Defendants' motion for new trial;
2. Defendants' motion to retax costs;
3. Plaintiffs' cross motion for additional costs;
4. Plaintiffs' motion to vacate stay of execution of judgment;
5. Plaintiffs' motion for order enjoining

defendants from disposing of assets; and

6. Plaintiffs' motion for attorneys fees.

The Court having carefully considered the pleadings and documents on file herein and the arguments of counsel,

IT IS HEREBY ORDERED that:

The defendants' motion for a new trial is denied;

The defendants' motion to retax costs is denied;

Plaintiffs' motion to vacate the stay of execution of judgment is denied; and

Plaintiffs' motion for an order enjoining defendants from disposing of assets is granted. Specifically, defendants are enjoined from selling, conveying, disposing of, hypothecating or otherwise giving away any of the property in which they have an interest, be it real, or personal, or any chose in action wherever located and of whatever character or nature, be it separate property or community property.

In regard to plaintiffs' motion for attorneys' fees, the Court has studied the twelve factors enunciated by the Ninth Circuit in Kerr v. Screen Extras Guild, Inc., 526 F.2d 67 (9th Cir. 1976), and HEREBY ORDERS that defendants pay to plaintiffs' counsel as reasonable attorneys' fees the sum of Thirty-Five Thousand Dollars (\$35,000).
DATED: February 27, 1981.

ROBERT P. AGUILAR
UNITED STATES DISTRICT JUDGE

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

JAMES M. LEAVER, et al.,)	
)	
Plaintiffs,)	
)	
vs.)	No. C-78-1185-ACW
)	
BAHIDJ B. SABOUNI, et al.,)	
)	
Defendants.)	
<hr/>		
)	<u>ORDER</u>
BAHIDJ B. SABOUNI, et al.,)	
)	
Counterclaimants,)	
)	
JAMES M. LEAVER, et al.,)	
)	
Counterdefendants.)	
<hr/>		

Defendants move for reconsideration by the Magistrate of his Special Master Report filed February 25, 1980 and of the proposed Findings and Conclusions attached as Enclosure 1 thereto. This motion was opposed by written memo to which defendants filed a subsequent reply.

Having presided over the hearings which are the subject of the challenged Report, and having

studied the written materials in support of the position taken by opposing counsel, I ordered the matter submitted without oral argument as provided for by Local Rule 220-1.

THE MOTION IS DENIED.

I am satisfied that my Report reflects my considered views and I find no basis for making any changes or taking any of the actions urged by defendant.

If, however, the District Court on appeal is of a contrary view and believes the Special Master should conduct further testing, then it should be ordered under the following terms and conditions.

1. The Special Master should be provided with a copy of the patent in question.

2. The District Court should direct the Special Master to conduct whatever tests he feels necessary to determine operability.

3. The defendant should be directed to bear all costs of testing, and employment of

experts as directed by the Special Master. These costs may or may not be taxable, depending on the ultimate outcome of the trial.

If this were to be ordered, it would be my intention to employ a qualified member of the patents bar to serve as the Court's impartial expert. This expert, unhampered by any acts, conduct or direction by any party or attorney to this litigation, would coordinate testing by some competent laboratory and would file a report and conclusions.

I agree that the work done so far under the order of reference is replete with variables introduced by the parties and later compensated for by other evidence. I also agree that it is not easy to read the record and isolate clear factual recitations that lead unerringly to but a single conclusion. Nevertheless, the Special Master sifted conflicting evidence, accepted some, rejected other and reached a final result. As is

always the case where evidence is in conflict, the minds of reasonable men may differ. I completed my work under the order of reference. I don't intend to change it. It is now ready for appeal.

Respectfully submitted,

OWEN E. WOODRUFF, JR.
United States Magistrate

Dated: April 18, 1980

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

JAMES M. LEAVER, an individual, and S-3 CONCRETE PRODUCTS, INC., a California corporation,

Plaintiffs,

vs.

BAHIDJ B. SABOUNI, an individual, and SABOUNI AND ASSOCIATES,

Defendants.

No. C-78-1185 ACW

BAHIDJ B. SABOUNI, an individual, and SABOUNI AND ASSOCIATES,

Counterclaimants,

vs.

JAMES M. LEAVER, an individual, and S-3 CONCRETE PRODUCTS, INC., a California corporation,

Counterdefendants.

ORDER DENYING DEFENDANT'S MOTION FOR RECONSIDERATION OF SPECIAL MASTER'S REPORT

Defendant Bahidj B. Sabouni has moved the Court to set aside the Special Master's Report,

dated February 25, 1980. The issue has been fully briefed. The defendant's motion is denied.

This case involves the validity of a process patent and the enforcement of rights arising from the assignment of that patent. By Stipulation and Order of Reference, dated July 23, 1979, the matter was referred to Magistrate Woodruff to act as a master under Rule 53 of the Federal Rules of Civil Procedure and Rule 410 of the Local Rules of the U.S. District Court for the Northern District of California. The parties stipulated that:

The supervision of tests as to the operability of the process disclosed and claimed in the U.S. Letters 3,247,294 shall be referred to Magistrate Owen Woodruff.... Magistrate Woodruff shall be charged with setting up and supervising tests of the operability of the patent, and to report his findings to the Court in the manner provided for reports in jury actions. The parties shall propose tests and procedures and suggest testing facilities, and the Magistrate shall, whenever reasonably possible, conduct such special tests as requested by a party. The Magistrate shall report the results of all tests and his conclusions to the Court and the parties.

The tests proposed by both parties were

conducted by the court-appointed expert, Mr. Loren K. Salladay of Testing and Controls, Inc., and a hearing on this evidence was held before Magistrate Woodruff. On February 23, 1980, the master filed his report. Magistrate Woodruff concluded:

It would appear that Mr. Salladay's testimony is contradictory as the questions posed by plaintiff's counsel lead the expert to the conclusion that the patent is inoperable. On the other hand, questions asked by counsel for the defendant of the same witness and based on different test data would lead to the conclusion that the patent is operable.

Therefore, it becomes the duty of the Magistrate to analyze the tests performed in the light of the language of the patent and make a determination as to which set of tests performed by the expert are most valid in testing the operability of the invention.

After a careful review of the evidence before the court, together with briefs of counsel, I have concluded that the plaintiff's tests are not only more reliable but provide a basis on which the Magistrate can find that the presumption of operability of this process patent has been overcome.

The Magistrate also adopted the plaintiff's

proposed findings and conclusions: On April 17, 1980, Magistrate Woodruff denied defendant's motion for reconsideration.

Defendant now moves, by a motion labeled "Motion for Reconsideration of Report of Special Master," that the Report and Findings be set aside in their entirety, and that evidence of the tests conducted under the Reference be admitted — item by item — at trial. As to the latter request, no motion is necessary. The parties are free to introduce any otherwise admissible evidence -- including evidence regarding the Salladay-conducted tests -- at trial. See Crateo, Inc. v. Intermark, Inc., 536 F.2d 862, 868 (9th Cir.), cert. denied. 429 U.S. 907 (1976); Eastern Fireproofing Co. v. United States Gypsum, 50 F.R.D. 140 142 (D. Mass. 1970); Connecticut Importing Co. v. Frankfort Distilleries, 42 F.Supp. 225, 227 (D.Conn. 1940). The motion to set aside the entire Master's Report and Findings is hereby denied.

Defendant's objections to the Report can be classed into three categories: 1) erroneous conclusions regarding the tests and the patent's operability; 2) improper admission of certain documentary evidence; and 3) inclusion of improper discussions of the evidence and conclusions of law in the Master's Findings. Only the first objection is a possible basis for setting aside the entire Report. The other alleged errors in the Report can be easily remedied, if necessary, by deleting objectionable portions of the Report and Findings, upon the appropriate motions of the parties, before they are read to the jury. See FED. R. CIV. PROC. 53(e)(3); Connecticut Importing Co., supra, 42 F.Supp. at 227.

Defendant claims that the master was "clearly erroneous" in concluding that plaintiff's tests proved the patent's inoperability and that defendant's test did not prove the opposite. Since the jury will be the ultimate judge of the master's conclusions in its role as finder of fact,

the Court will weigh the sufficiency of the evidence supporting the master's findings of fact by the more deferential "substantial evidence" test. See Eastern Fireproofing Co., 50 F.R.D. at 143. Compare FED. R. CIV. PRO. 53(e)(2). Judged by this standard, the master's conclusions regarding the test results must be upheld. The Court is satisfied that these conclusions are supported by substantial evidence, and hence not unreasonable.

ACCORDINGLY, IT IS HEREBY ORDERED that defendant's motion for reconsideration of the Special Master's Report is DENIED without prejudice to the parties' right to raise specific objection to particular portions of the Report and Findings before or at trial if they are unable to stipulate to an edited version of the Report and Findings to be read to the jury. See Connecticut Importing Co., 42 F.Supp. at 227. The Court

encourages that any such motions be made before trial to facilitate its own review.

DATED: July 30, 1980.

ALBERT C. WOLLENBERG
United States District Judge

APR 29 1983

ALEXANDER L. STEVAS,
CLERK

No. 82-1736

IN THE SUPREME COURT OF THE UNITED STATES

October Term, 1982

BAHIDJ B. SABOUNI, an individual,
SABOUNI AND ASSOCIATES,

petitioner,

v.

JAMES M. LEAVER, et al.,

Respondents.

RESPONDENTS' BRIEF IN OPPOSITION TO
PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

JOSEPH L. STRABALA
LAW OFFICES OF JOSEPH L. STRABALA
Two Embarcadero Center, Suite 2380
San Francisco, California 94111
Telephone: (415) 981-8083

Attorney for Respondents

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Two Embarcadero Center, Suite 2380
San Francisco, California 94111
Telephone: (415) 981-8083

Attorney for Respondents

PARTIES

Respondents are JAMES M. LEAVER, an individual, and S-3 CONCRETE PRODUCTS, INC., a now dissolved California corporation.

Petitioner is BAHIDJ B. SABOUNI, an individual, and SABOUNI & ASSOCIATES is a dba of BAHIDJ B. SABOUNI.

No other parties, businesses or entitles have any interest in this litigation.

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Respondents, plaintiffs below, respectfully request this Court deny the petition for Certiorari for the reasons herein advanced. Respondents are hereinafter referred to as "plaintiffs LEAVER."

OPINIONS BELOW

On the jury verdicts (see Jury Verdicts, infra) the district court entered judgment for plaintiffs on December 11, 1980. (Petition at A-16 and A-17). Petitioner appealed, and on November 30, 1982 the Court of Appeals for the Ninth Circuit affirmed the jury verdicts in every respect, but remanded the case for clarification on the attorney's fees awarded by the district court. (Petition at A-1 to A-5). Petitions for rehearing in the Court of Appeals were denied on January 3, 1983. See Separate Appendix to petition at 10.

JURISDICTION

petitioner seeks to invoke jurisdiction under 28 U.S.C. §1242(1) which is permissive jurisdiction by certiorari from the January 3, 1983 denial of rehearing of the Memorandum Opinion dated november 30, 1982 of the Court of Appeals for the Ninth Circuit, Appeal No. 81-4128.

STATEMENT OF THE CASE

A United States patent is involved in this case. Petitioner obtained U.S. Patent 3,247,294 (Petition, at A-100-105) on a process to manufacture light-weight concrete using components which were well known in the prior art. petitioner alleged in his patent and claims that if one puts "pressure" on a wet cement mix contained in a vessel and maintains this pressure until the mix dries or sets, he will get a light-weight concrete having increased strength. (See Petition, at A-102: col. 1, lines 11-15).

At trial the patented process was debunked as a farce; three experts familiar and skilled in the art of concrete technologies stated unequivocally the claimed process did not work (Litvin, TR 782, 789, 812 and 820); (Shukla, TR 1615 and 1624); (Salladay, the Magistrate's expert, TR 342, 345-6, 353, 354, 370). Also, plaintiffs LEAVER conducted extensive tests proving the process did not work (TR 233-237). Based on the evidence, the jury returned verdicts with a special finding that the process was inoperable, i.e., the process simply did not work. (See Jury Verdicts, Petition at A-7 to A-12).

Petitioner had entered into various written arrangements with the plaintiffs LEAVER entitled "Agreement for Sale of Patent Rights" (two), "Partnership Agreement," and a "Security Agreement." (Copies are attached to petition at A-49 to A-94).

The jury found the plaintiffs LEAVER were entitled to rescind these agreements, except the

Partnership Agreement which the jury found was breached. (See Jury Verdicts, supra).

The Court of Appeals for the Ninth Circuit affirmed the judgment entered by the district court on the jury verdicts, but remanded for clarification on attorney's fees, which fees were awarded by the district court. (See Separate Appendix to Petition, at 16). Since the district court has not rendered any decision on remand, the issue of attorney's fees is not before this Court, assuming the remainder of the case is now ripe for review.

RESTATEMENT OF QUESTIONS PRESENTED

I

Did **Lear, Inc. v. Adkins** 395 U.S. 653 (1967) abrogate the common law rule that a contract can be rescinded where there is a complete failure of consideration, as codified in California Civil Code §1689, solely because a patent is involved in the contract?

II

Can the verdicts of a jury, which are supported by substantial evidence, be dissected and restructured by petitioner so they can be viewed as being inconsistent, where the petitioner invited the form of the verdicts at trial by not requesting clarifying instructions or objecting to the instructions given?

III

Was it prejudicial error to admit a Magistrate's Report finding the patented process inoperable, where:

(a) Petitioner stipulated to proceedings before the Magistrate;

(b) The Magistrate's expert Salladay, who testified before the Magistrate, also appeared at trial and again testified the process was inoperable;

(c) Petitioner was unable to prove at trial expert Salladay's tests did not follow the claimed process; and

(d) The Court entered the Magistrate's Report in evidence without reading it to the jury and with the qualifying instruction, to wit:

"You, the jury, should give the Report of Magistrate Woodruff whatever weight you deem appropriate."?

IV

Was the petitioner denied due process where he had ample opportunity to cross-examine all the experts at trial, including the expert selected by the Magistrate, as well as present his own experts, merely because the technology involved cement processes, which only petitioner alleges are complex?

NO ISSUES OF IMPORTANT PUBLIC POLICY ARE INVOLVED

The current case merely involves the application of state and federal law to facts found by a jury. No issue of public policy is raised by the petition.

ARGUMENTS ON QUESTION NO. I

I

THE RULE OF **LEAR V. ADKINS** DID NOT
ABROGATE THE COMMON LAW OR THE LAW
OF THE STATE OF CALIFORNIA.

Simply put, petitioner's argument is that plaintiffs (respondents) should not be entitled to recover \$62,083.00 paid to petitioner under an Agreement of Sales of Patent Rights which is reproduced in the Petition at A-79 to A-87. In **Lear, Inc. v. Adkins** 395 U.S. 653 (1967), this Court held that a contractual provision estopping a licensee from challenging the validity of a licensed patent was void for reasons of public policy. **Lear** at 670. The doctrine of "licensee estoppel" was thus laid to rest.

Appeal courts subsequent to **Lear** have held that a licensee cannot recovery royalties paid to

a licensor before a licensee contests the patent rights of the licensor and the contract claim for royalties, e.g., **St. Regis Paper Co. v. Royal Indust.** 525 F.2d 309, 312-324 (9th Cir. 1977), cert. denied 434 U.S. 99.

To develop an ostensible conflict, petitioner reconstrues the agreements entitled "Agreement of Sales of Patent Rights, authored by him, as "licenses" as opposed to "assignments," citing **Waterman v. MacKenzie** 138 U.S. 29 (1890). However, petitioner never raised this issue at the district court level.¹

In affirming the judgment, the Court of Appeals quite properly observed:

"The jury held only the agreements of sale of patent right to be rescinded. . . . The jury had ample evidence from which it could properly find the \$62,083 paid by Leaver was consideration for an installment sale of patent rights. . . ." (See Separate Appendix, p. 6).

¹See Federal Rules of Civil Procedure, Rule 51; **Palmer v. Hoffman** (1943) 318 U.S. 109.

More importantly, the theory underlying St. Regis, supra, is not applicable where a grantee fails to receive any consideration under an assignment. Here, the jury undisputably found that the patented process sold to plaintiffs LEAVER was inoperable, i.e., it would not work!

Traditionally at common law where there is a total failure of consideration in any agreement, the party entitled to such consideration has a right to rescind. This is codified in California Civil Code §1689 stating inter alia:

"§ 1689. Grounds

(a) A contract may be rescinded if all the parties thereto consent.

(b) A party to a contract may rescind the contract in the following cases:

(1) If the consent of the party rescinding, or of any party jointly contracting with him, was given by mistake, or obtained through duress, menace, fraud, or undue influence, exercised by or with the connivance of the party as to whom he rescinds, or of any other party to the contract jointly interested with such party.

(2) If the consideration for the obligation of the rescinding party fails, in whole or in part, through the fault of the party as to whom he rescinds.

(3) If the consideration for the obligation of the rescinding party becomes entirely void from any cause.

...."

Under **Erie R.R. Co. v. Thompkins** 304 U.S. 64 (1938), state law controls contract disputes before the federal courts.

The proposition petitioner now advances is that **Lear, supra**, overruled the statutory law of California, to wit, Civil Code §1689, when this Court ruled public policy requires that a licensee be permitted to attack validity of a licensed patent where the license contained a patent incontestability clause.

However, well prior to **Lear, supra**, it was possible to rescind an agreement involving a patent where there was fraud or a failure of consideration.² For example, in **Hat-Sweat Mfg.**

²See exceptions to licensee estoppel: **Lear, Inc. v. Adkins** (1967) 395 U.S. 653, 663-68.

Co. v. Waring et al. 46 Fed. 106106 (DC NY 1891) a licensee was allowed to rescind because of misrepresentation regarding the amount of royalties being paid by other licensees. By contrast here, the petitioner's process did not work according to the jury and plaintiffs LEAVER received no consideration whatsoever.

Thus, in the pre-**Lear** era, an assignee, such as plaintiffs LEAVER, could always rescind an agreement where there was fraud or a total failure of consideration, This was true even if the assignment contained a patent incontestability clause. As stated in Deller's Walker on Patents 2nd ed, §358:

"An assignee of a patent who has acted under an assignment is estopped to deny the validity of the patent. But he may not be estopped to assert failure of consideration due to the worthlessness of the patented device." (at 437)

This follows since the theory of rescissions is not based on the validity of the patent, but on failure of a consideration.³

In **Smith v. Hightower** (1886) 76 Ga. 629, 630 the court observed:

"There was no error in overruling a demurrer to the plea. It rested on the ground that defendant did have the right to sell in those counties, and therefore the consideration did not fail; but it is hard to understand of what value is the exclusive right to sell a worthless thing, totally unfitted for the use for which it was manufactured; and, if valueless, we do not see where the consideration to sell it can be found."

Lear did not set up a bar to an assignee where a patent, which is totally devoid of any useful value, might be pawned off on an unsuspecting member of the public without recourse to rescission. Such a rule would invite fraud and would decry the public policy to be served.⁴

³See **Craddick v. Emery** (1916) 93 Wash. 648, 161 P. 484, 486.

⁴"public policy" is a very unruly horse, and petitioner seeks to ride it in a direction of an unfettered right to commit fraud.

In the reported cases when there has been a failure of consideration rescission is proper. For example, in **Fairchild Stratos Corp. v. Siegler Corp.** 225 F.Supp. 135 (DC Md. 1963) a boat manufacturer purchased a metal forming press to make boats. The press never made an acceptable metal boat. Significant time was spent in reworking the press and in experimentation. Rescission was awarded the boat company, along with recovery of consequential damages. In **Comings v. Leedy** (1893) 14 Mo. 454, 21 S.W. 804, 810, the facts and the conclusion of the court were stated in the following language:

"The original note was given for the sole right to make, use, and vend in the state of Colorado, a patent right improvement in what is called a 'sad iron,' of which Smallstig, one of the payees, claimed to be the patentee. The consideration expressed in the bill of sale is \$5,500. . . . The only consideration for either of the notes was the right to the state of Colorado in the patented iron, which the evidence shows is worthless and unsuited to the purpose for which it was made. The adaptation of a machine to the uses for which it is made is

always warranted. **Smith v. Hightower** 76 Ga. 630; Daniel on Negotiable Instruments, §203, p. 226. So generally, if the thing purchased was entirely worthless when purchased, there is a total failure of consideration. **Arnold v. Wilt** 86 Ind. 367; **Brown v. Weldon** 27 Mo. App. 251."

Accord **Lobdell v. Miller** (1952) 114 C.A. 2d 328, 343; 250 P.2d 357.

St. Regis, supra, prevented recovery of pre-litigation royalties because the licensee in **St. Regis** enjoyed the commercial benefits, as well as wielding the patent sword against its competitors and received the protection of the shield of quiet enjoyment for the use of the patented subject matter, until the lawsuit commenced. By contrast, plaintiffs **LEAVER** had no commercial benefit, had no sword and had no shield since the patented process was worthless.

Evidence at trial demonstrated the petitioner's patented process never worked for anyone. Prior grantees testified they could not get the process to work, even with the assistance

of an expert sent by petitioner to help them (TR 993-994).

Upon the factual finding of inoperability, the jury properly found rescission because of a total failure of consideration.

CONCLUSION ON QUESTION NO. I

As to Question No. I, no error exists in the proceedings below which are consistent with established principals of law. Lear v. Adkins, supra, and its progeny never abrogated the right to rescind where the transferee received nothing by way of consideration.

* * * * *

ARGUMENTS ON QUESTION NO. II

* * * * *

I

UNDER WATERMAN V. MACKENZIE
138 U.S. 252 (1890) ASSIGNMENTS TO
PART OF THE UNITED STATES ARE
ALLOWED.

Title 35 U.S.C. §261 provides in part, as follows:

"Ownership; Assignment

Subject to the provisions of this title, patents shall have the attributes of personal property.

Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States. (emphasis added).

Divisibility of a patent was judicially recognized in the leading decision of **Waterman v.**

MacKenzie 138 U.S. 252, (1890) at 255:

"The monopoly thus granted is one entire thing, and cannot be divided into parts, except as authorized by those laws. The patentee or his assigns may, by instrument in writing, assign, grant and convey, either, 1st, the whole patent, comprising the exclusive right to make, use and vend the invention throughout the United States; or, 2d, an undivided part or share of that exclusive right; or 3d, the exclusive right under the patent within and throughout a specified part of the United States. A transfer of

either of these kinds of interest is an assignment." (emphasis added)

Reference is made to pages A-79 to A-87 of the petition reproducing the assignment rescinded. In paragraph 2 of this assignment the rights granted are "exclusive" to a part of the United States. Under paragraph 6 thereof the grantee can sue for infringement. Thus, as the **Waterman** court noted at 255 where there is a right to sue infringers with an exclusive grant to all or part of the United States, it is an assignment notwithstanding the terms employed. On the face of the agreements entitled "Agreement for Sale of Patent Rights," (both authored by petitioner), the right to sue infringer is unquestionably granted.

Thus, the Court of Appeals for the Ninth Circuit had ample evidence to support the jury's verdicts on grounds of assignments versus licenses. Assignments differ from licenses.⁵ Under the law of New York before **Lear**, an assignee

⁵The assignor warrants title to his assignee.

could defend a suit for the price on the ground that invalidity of a patent constituted a failure of consideration, whereas a licensee could not question its validity. **Marston v. Swett** (1876), 66 N.Y. 206, 212, 23 Am. Rep. 43; **Herzog v. Heyman** (1897), 151 N.Y. 587, 45 N.E. 1127, 56 Am.St.Rep. 646.⁶

* * * * *

II

THE JURY'S FINDINGS ARE FINAL.

The rules "of the common law" which govern the Supreme Court's re-examination of facts in civil cases within its appellate jurisdiction were addressed in **Capital Traction v. Hof** 174 U.S. 1, 13 (1899) where Justice Gray opined that facts

⁶**Nash v. Lull** (1869) 102 Mass. 60; 3 Am.Rep. 435: "In a suit brought on a promissory note, the only consideration for which is the assignment of an interest in or right under a patent, the question of consideration depends upon the validity of the patent; if the patent is void, the note is of course without consideration. (emphasis added) jury's specific finding of inoperability.

determined by a jury may not be re-examined, unless it is appropriate for the court to order a new trial because of an "error in law."

Thus, petitioner's states arguments about the operability of the patent were laid to rest by the Substantial evidence exists for finding an assignment versus a license to support the jury's verdict as opined by the Court of Appeals.

* * * * *

III

A JURY'S VERDICT IS EMBOSSED WITH
THE PRESUMPTION OF CORRECTNESS.

At trial petitioner never requested any instructions on his alleged rights to retain pre-litigation payments under Lear, supra, and/or its progeny. In fact, petitioner in his Cross-Complaint, sued plaintiffs LEAVER for (1) breach of contract (the same contracts plaintiffs alleged were breached by petitioner); (2) for fraud; and (3) breach of fiduciary duty to a minority

shareholder. The jury found against the petitioner on each and every one of his causes of action in the Cross-Complaint (TR 2071-72). (See Jury Verdicts, Petition at A-7 to A-12).

Thus, the cold light of the record shows that petitioner had his day in court in the adjudication of his rights under several written agreements. The jury did not believe his version of the facts. Therefore, petitioner merely seeks to have the Supreme Court to re-examine the facts relating to his counterclaims, prohibited under Capital Traction Co. v. Hof, supra.

Fitzgerald v. McFadden 88 F.2d 639 (2nd Cir. 1937) at 642 states the rule as follows:

"The law is well settled that if one buys an issued patent and if it later turns out to be invalid, the buyer may disaffirm."

* * * * *

IV

ISSUES NOT RAISED BY WAY OF
INSTRUCTIONS ARE WAIVED.

Federal Rules of Civil Procedure Rule 51
states inter alia:

"No party may assign as error the giving or the failure to give an instruction unless he objects thereto before the jury retires to consider its verdict, stating distinctly the matter to which he objects and the grounds of his objection."

Absence objection, instructions to a jury are not reviewable. **Hays v. United Fireworks Mfg. Co.** 429 F.2d 836 (9th Cir. 1969), 13 F.R.Serv.2d 12b.1, Case 4; **Wyler v. Fairchild Hiller Corp.** 503 F.2d 506 (9th Cir. 1974); Moore's Fed. Practice, 2nd ed., Vol. 5A, paragraph 51 at 51-59, et seq.

This Court in **Palmer v. Hoffman** 318 U.S. 109 (1943), found no error:

"Where a party might have obtained a correct charge by specifically calling attention of the trial court to the error and what part was correct."

petitioner at trial never requested instructions on differences between "assignments" and "licenses." Further, petitioner never requested instructions about post-challenge

royalties or election of remedies. From **Brown v. Moore** 247 F.2d 711 (3rd Cir. 1957) the general rule can be paraphrased as:

A failure to request (or object to lack of) a charge to the jury results in a loss of the issue, even if a question for the jury on the issue may have existed.

In **Reed v. AMF Western Tool, Inc.** 431 F.2d 345 (9th Cir. 1970) defenses of lack of privity of contract and an express disclaimer were waived by failure to object. Inconsistent instructions without objections creates no error. **Bernstein v. Olian** 77 F.Supp. 672 (DC SDNY 1918), 11 F.R.Serv. 51.33, Case 4. Where there is no objection to interrogatories given to a jury, there is a waiver of any error, **Kirkendall v. Neustrom** 379 F.2d 694 (10th Cir. 1967), even if they are inconsistent.

Petitioner argues (Petition, p. 24) there can be no favorable reconciliation of what he considers inconsistent jury verdicts. However, the record shows he voiced no objections to the instructions (with the exception of the

instruction given regarding the Magistrate's Report). No objections were made the interrogatories answered by the jury. It was the petitioner's obligation to raise the "election of remedies doctrine" if applicable, and not having done so it is not part of the law of the case. These alleged errors are then not reviewable by this Court. F.R.C.P. Rule 51, supra.

CONCLUSION ON QUESTION NO. II

Contrary to petitioner's contention the Court of Appeals, in affirming the judgment, did not rewrite the jury's verdicts. Petitioner waived any issues now raised by failure to raise them at trial.

ARGUMENTS ON QUESTION NO. III

I

ADMISSION OF THE MAGISTRATE'S
REPORT WAS PROPER.

In an effort to resolve the dispute prior to trial, plaintiffs LEAVER sought a reference to a Magistrate. Petitioner stipulated to the reference (CT Doc. #34). The Magistrate appointed an expert, Salladay, to conduct tests submitted by the parties. All of plaintiffs LEAVERS' tests demonstrated inoperability. Likewise, all of petitioner's tests, when compared on a uniform basis, demonstrated inoperability. The Magistrate found the patented process inoperable (Plaintiffs' Exhibit 64). Petitioner understandably did not like the adverse decision.

In a civil jury trial, a Magistrate's report is only advisory. Federal Rules of Civil Procedure Rule 53(e)(3). **Crateo, Inc. v. Intermark, Inc.** 536 F.2d 862, 868 (9th Cir. 1976). The district court made this point clear with a cautionary instruction (TR 2010):

"you, the jury, should give the Report of Magistrate Woodruff whatever weight you deem appropriate."

Importantly, Salladay, the expert upon whom the Magistrate relied and who was suggested to the Magistrate by petitioner, testified at trial (TR 343, 345-6; 353-5 and 370). His trial testimony was the process of the patent did not and could not work. Petitioner had ample opportunity to cross-examine Salladay at trial and to substantiate before the jury, if possible, how plaintiffs LEAVER allegedly "sabotaged the patent" since Salladay had conducted all the tests under the reference. (See irregular and extra-record declaration of Sabouni, Petition, pp. A-95 to A-99, making the sabotage claim).

Further, nothing in the record remotely suggests the district court "forced" the jury to accept the Magistrate's Report. The Court of Appeals accurately stated (Memo. Op. p. 4):

"Sabouni claims the jury instructions were confusing because they implied that the jury was bound by the special master's report. The instructions, however, clearly stated that the jury was free to give the report whatever weight it deemed appropriate."

Petitioner Sabouni could not have had a fairer trial, his depraved declaration to the contrary notwithstanding. Also petitioner Sabouni could have moved the Court to delete any objectionable portions of the Report but did not. See *Conn. Importing Co. v. Frankfort Distilleries* 42 F.Supp. 225, 227 (D.C. Conn. 1940).

Contrary to arguments of the petitioner, his patented process was simple. According to petitioner's testimony, one merely "squeezes" the wet mixture within a container and holds the pressure until the mixture sets to practice his invention. It was a simple mechanical process, not involving the chemistry of concrete or electron microscopes. (See patent reproduced in Petition, A-100 to A-106). From this mechanical application of pressure, according to petitioner, one should get higher strength. The jury found there was no increase in the strength of the concrete made with the process -- the claimed process thus was a nullity.

CONCLUSION ON QUESTION NO. III

No error of law occurred on admissions of the advisory Magistrate's Report, since the same evidence was presented at trial, and petitioner was allowed to cross-examine on evidence before the Magistrate, curing any possible prejudice.

ARGUMENTS ON QUESTION NO. IV

I

THERE IS NO SHOWING PETITIONER
WAS DENIED DUE PROCESS.

petitioner argues in conclusionary terms his patent process was complex. Nothing in the record supports his observations. See claims of the patent reproduced in the petition at A-100 to A-105. The only substantiation for the claim of denial of due process is petitioner's extra-record declaration, containing an abundance of hearsay.

It is submitted such extra-record declarations are not warranted in civil appeals, lest trial de novo by declaration becomes the format of this Court. Plaintiffs LEAVER will not further dignify petitioner's declaration by addressing its stilted remarks.

CONCLUSION ON QUESTION NO. IV

No facts of record support any denial of due process to the petitioner, a disgruntled litigant.

* * * * *

The petition for certiorari should be denied. Further, it is untimely and its form does not comply with the Rules of this Court.

* * * * *

Dated: April , 1983

LAW OFFICES OF JOSEPH L. STRABALA

JOSEPH L. STRABALA
Attorney for Respondents

CERTIFICATE OF SERVICE

I certify that I am the attorney for the Respondents herein and that I mailed three copies of RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT to the attorneys for the Petitioner addressed as follows:

DAVID B. BIRENBAUM, ESQ.
SIDNEY A. LUSCUTOFF, ESQ.
BIRENBAUM, LUSCUTOFF & LENDORMY
Opera plaza, Suite 2030
601 Van Ness Avenue
San Francisco, CA 94102

on this 26th day of April, 1983.

LAW OFFICES OF JOSEPH L. STRABALA

JOSEPH L. STRABALA